Corporate Studies Group Working Papers

VOLUME - I

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F O R E W O R D

The Corporate Studies Group comprises of the scholars involved in (i) the long-term research programme "Regulatory Administration of Private Corporate Sector in India", funded by the ICSSR; (ii) the research project "Comparative Performance of Pulic Enterprises and Large Private Sector Companies", funded by the Standing Conference on Public Enterprises (SCOPE); and (iii) the research project "Growth and Regulation of Foreign Private Capital in India Since Independence", funded by the Planning Commission. The Group is also involved in another research project on "The Impact of Multinational Corporations on India's Position in the International Division of Labour", funded by the IDPAD.

This volume contains Working Papers contributed by the members of the Corporate Studies Group. We have been receiving a number of requests for these papers. The compilation provides some facets of industrial regulation in India. Most of these studies are based on the empirical data which forms part of the Corporate Information System of the Group.

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C O N T E N T S

WORKING PAPER NO. 1

Multinational Corporations in India:

(The need for a realistic policy framework)

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The earlier version of this paper was read as key note address at the Indian Economic Conference, December 24, 1978, Bombay by the Author.

INTRODUCTION

The paper constitutes of three sections. Section-I presents a brief review of the nature of concern being shown with regard to the operations of the MNCs in the global context. Section-II outlines some of the broad features of the foreign investments and the MNCs in India. It also attempts to provide a broad strategy for research on the MNCs. The last section examines the effectiveness of the FERA in relation to the objectives it was expected to serve. This is based on the empirical results of a study being undertaken by the author.

SECTION - I

1. Operations of the multinational corporations (MNCs) have evinced considerable interest, particularly during the last few years, amongst social scientists, policy makers and international agencies.[1] While the rapid growth of MNCs in the world economy is seen more of a threat to the under-developed countries, the concern for control and regulation of MNCs and their global operations has been voiced more intensely in the developed societies. Scholars and policy makers in the developing countries (a typical case being that of India) are, however, now trying to catch up with their counterparts in the developed countries.

2. In 1972 the U.N. Economic and Social Council appointed a Group of eminent persons to study the the role of MNCs and their impact on the process of development, especially that of the developing countries...."[2] The Group submitted its report in 1974. In pursuance of the Group's recommendtions the Commission on TNCs' and the 'Centre on TNCs'[3] were established in the UN netwrok as agencies to investigate and render advice to the UN Economic & Social Council and the member governments. A few regional offices of the UN Centre on Transnational Corporations (UNCTC) have already been established, the one for ESCAP region being located at Bangkok. The Regional offices of the UNCTC have a programme to impart skills at negotiations with TNCs, build up comprehensive information systems and prepare case studies.[4] Other organs of the U.N., like UNCTAD, ILO, FAO, UNESCO & UNIDO, are promoting

studies with regard to the operations of the TNCs in their respective areas of specialization. The Independent Commission on Development and International Issues under the Chairmanship of Willy Brandt, with its secretariat at Geneva is also undertaking more studies on the role of TNCs and other related issues. A good number of academic institutions and research centres in the developed countries are developing long-term programmes to study one or the other aspects of TNCs. For instance, TNI (SOMO) at Amsterdam and ECIMC at Brussels (a centre funded by a Swiss TNC) are institutions exclusively devoted to study the role of largest giant corporation's of the world from the labour, consumer and management viewpoints. The Harvard University has published its second revised volume on source material on TNCs. A number of individual researchers in U.S. and European countries are engaged in preparing case studies to highlight problems of transfer of technology or labour relations.

Wide Scope for Research

3. Western scholars, particularly from the 'TNC home' countries are generally seen to be critical of the MNCs and their writings are well informed. There are, of course, many who see the MNCs as the only hope of the under-developed world. The range of information collected and commented upon by scholars from the developed world is large. The areas proposed to be covered are wide ranging: e.g. problems of transfer of technology, transfer pricing and resort to monopolistic and restrictive trade practices, impact on balance of payments (for host and home countries), promotion of 'research and development' and adaptation of processes to local needs, generation of employment, existence of the wide disparities due to top-heavy new class of managers and professionals, introduction of western life styles, growth of indigenous enterpreneurship, cultivation of 'brand' culture, quality consciousness, ties-up with private national monopoly capital, direct and indirect involvement in influencing public policies and TNCs adaptation to local socio-political environment and involvement in building up of infrastructural facilities for the backward societies. In this category would also fall some of the politically inspired publications dealing with the TNcs in countries of the Latin America and African continent

where ruling elites and governments promote and protect the interests of foreign monoplies rather than the genuine interests of the local population.

Research Host Countries

4. In contrast to this, with a few exceptions, studies conducted in the developing countries officially or at the individual level, are invariably, at the general level and do not go beyond vague generalizations. The empirical base of studies on the under-developed countries continues to be disappointing. Indian economists, generally speaking, have not shown adequate degree of interest in undertaking studies on the private corporate sector in general and the foreign sector, in particular. Policy makers in a number of developing countries either continue to operate in a framework that was evolved in the colonial era (which is the historical past of the majority of the developing nations) or pursue policies based on many a vague, unrealistic and misplaced assumptions. Some of the crucial policy formulations with regard to foreign capital, therefore, are nothing short of well cultivated myths.

MNC Home Countries

5. The concern shown by Western scholars on the operations of TNC's is probably [illegible] out of many reasons. However, primarily their concern is a reaction, based on their day to day personal experiences and frustrations with the fast extending arms of the 'giant corporations', whose control mechanism is expanding and tightening fast. Some of them seem to visualize that much sooner than the requisite consciousness arises, the citizen of the free world may lose their economic, social and political choices and be forced to surrender human dignity to the impersonal institutions to the TNCs. Hence, the view, tht giant corporations are leading the world to a point of crisis. Expressions of revolt against the prospects of being pushed towards a socio-economic system dominated by private corporation philosophy, may be feeble but are certainly distinct.

New Economic Order

6. Policy makers in MNc 'home' countries have not always viewed with concern the growing interest and direct investments by their MNCs in the

under-developed world; nor is this true of the international agencies. In fact, the 'home' countries alongwith international agencies established under the aegis of the U.N., provide support to entry of MNCs in the under-developed countries - more by way of direct participation by the MNCs than to the limited agreements - for outright sale of technical know-how or training. The economic resolutions at the international forums, not surprisingly, though increasingly, emphasize the need for transfer of capital to the third world countries. The developed nations are not hesitant to confess that they are far below the expected level of transfer of 0.75 per cent of their GNPs to the less developed nations. Part of their failure to fulfil their obligations is attributed to the rigidities of the host countries to allow entry of foreign capital. The 'capital it is assumed cannot be separated from 'technology'. The call for transfer of capital is unmistakably accompanied with the plea for reducing hurdles and liquidating sanctions which stand in the way of more exchange of goods (i.e. free trade). Strangely enough, concern against 'protectionism' is now being voiced by some of the developing countries, who would need protection from the direct competition from MNCs. There is emphasis on moving towards a new world order which contemplates that the different parts of the world should be organically interlinked in such a manner that would help knit the developed and the underdeveloped countries together for an everlasting peaceful and harmonious growth of humanity. The operational implications of the proposed New International Economic Order - to which India has most enthusiastically lent her support - are yet to be well understood by the developing countries. Primarily, one has to ask the question : to which side would the net balance of advantages tilt, if there is free international exchange, when there exist wide disparities between the economic political strength of the constituents involved? This aspect needs a separate discussion. However, it is worth considering if as a first step the developing nations can start becoming aware of the fact that what they need for development was not so much the capital but modern technology in selected areas. Secondly, the primary task before them was to organise themselves for transformation of their socio-economic and political structure and institutions than to divert their limited resources and energies towards trying somehow, to achieve a fast growth in GNP in the

immediate future. And thirdly, that there was the need for the under-developed countries to come together for enhanced mutual cooperation and for evolving mechanisms under which negotiations with the MNCs (and the developed countries) can be for technologies and not for capital, and for agreements which are not on 'firm' or 'enterprize' basis but for the country as a whole or for a group of developing countries together. Duplication of efforts and costs can be avoided, if there was a more meaningful cooperation amongst the developing countries as a block instead of the general acceptance of the plea for a new order promoting 'one to one' exchange - irrespective of the comparative strength of the individual particpation.

MNCs and Code of Conduct

7. The concern with MNCs' operations has led to emphasis on the need to evolve a code of conduct for the MNCs. The assumption is that MNCs can be made to abstain from indulging in certain type of practices which would be described as undesirable. The important code being discussed is that MNCs should not involve themselves with the political systems of the host countries and observe self-imposed neutrality. Similarly, it is being contemplated that the MNCs should not resort to monopolistic and restrictive trade practices. It is, however, not being questioned that by the very fact of the under-developed countries allowing private direct participation in economic activity, the host countries are opting for an economic system under which 'market mechanism' is allowed to determine the pattern of new investments. Given the assumption that MNCs are to be allowed to have direct investments with softer controls and lesser regulations, it is only logical to expect that private national capital would not be discriminated against, if not awarded preferential treatment. In brief, while the efforts at evolving a code of conduct appear quite reasonable, the fact remains that the entire discussion is in a framework of free-market economy - the politics of which is certainly not neutral. In India, we know only too well that local entrepreneurs, during the colonial era, were extremely hostile to foreign capital. However, within few years of India's independence the indigenous private capital became the champion of the cause of foreign companies and the MNCs. The Indian Industrial houses who had provided support to the struggle for freedom of the country were seen pleading

for joint ventures with foreign companies. The Indian private companies have been using all means to influence public policies. it would be no exaggeration to say that Indian corporate sector, particularly the bigger constituents, did participate in the political life of the country and provided financial and other material support to individuals and certain political parties. The Indian corporations have not remained neutral to political system, nor would indeed they be expected to remain so, in their own interest. The code of conduct for good behaviour may be evolved for the MNcs but it can certainly not be for the local capital who would be increasingly an active partner with the MNCs. The essential point, therefore, is that the basic thrust of entire discussion on MNCs regulation (in the Western societies or at the level of U.N. agencies) is within the framework of free market mechanism and the need for expanding the role of direct private investments in the developing world. Viewed in this perspective, no code of conduct can be neutral to politics of a country. A related and basic question in this regard is the extent to which expansion of the private capital would be in conformity with the national objectives of the developing countries. Most of the developing countries aim at widening the base and strengthening efforts at planned developments of their societies. For this, invariably, the countries are required to mobilize larger resources and direct these to areas which are though socially more desirable do not always find adequate justification or priority on the logic of 'free market mechanism'.

Aid and MNCs

8. The entry and promotion of MNC's needs also to be seen alongwith the 'aid' policies of the developed and the 'home' countries. None would dispute that the quantum and phasing of 'aid' by the doncr countries has to be an integral part of the economic and political philosophy and within their own framework of freign policy. No 'aid' is neutral nor it can be without direct and indirect strings. This is well illustrated by the form in which a part of the PL-480 funds were utilized to encourage such companies which had financial and technical collaborations with U.S. based firms. In fact, one of the major factor leading to entry of many MNCs from U.S. on the Indian scene has been the easy and cheap finance to the Indo-US joint ventures. A glance at the list of beneficiaries could be rewarding.

SECTION-II

9. How have the MNC's been viewed in India ? At the policy level three is no distinction between an enterprise that is MNc or one which is a small entity with parents abroad. At the first stage, the policy regarding MNCs is the same as for the foreign private capital in India. However, large foreign companies and dominant firms (in a product) recovered by the Monopolies and Restrictive Trade Practices Commission -- as indeed is true for even the wholly owned Indian corporate sector. The specific policies regarding foreign companies in India can be said to be the ones under the Foreign Exchange Regulation Act, 1973 (FERA). We shall examine the provisions of the FERA in Section III.

Foreign Capital: Classification

10. Foreign private capital in India can be broadly classified under the following categories :

(i) Companies which are registered abroad but have place of business in India; (i.e. Branches of Foreign Companies);

(ii) Companies having more than 51 per cent of equity held abroad (Foreign Subsidiaries);

(iii) Companies where the foreign equity is between 40-50 percent;

(iv) Companies with less than 50 per cent equity but under foreign 'effective control' (to be judged from operational and historical background);

(v) Companies with substantial (more than 10 percent) equity held by a foreign company, which is also having technical collaboration; and

(vi) Companies having collaboration agreements with 'licensee' status and having terms which place certain restrictions.

The above classification is for the corporate entities. There do, however, exist other forms of foreign enterprises having places of business in India. We understand, however, that the magnitude of the activity of the non-corporate foreign private capital is not very substantial.

Foreign Company Branches

11. Branches of foreign companies in India constitute the direct form of investment in India. The number of branches have varied from year to year. the number was: 541 during 1972; 540 during 1971; and 481 during 1976. The number of foreign branches as such, does not provide any idea

of the magnitude and nature of their operations. There are four reasons for this : one, a number of foreign branches have already closed down their business in India or have become Indian companies or are have been dormant for many years. Due to limitations of the information system and the regulatory mechanism, these continue to be reported as branches operating in India during a year. Two, a good proportion of the foreign branches are as liaison offices, agency offices of shipping and air lines or consultancy concerns not having any manufacturing activity in the country. In such cases there are no separate accounts for economic activity in India as the accounts of these companies are maintained for their global operations only. Three, the branches also include banking or service companies which cannot be equated with manufacturing or industrial undertakings. And lastly, the list of foreign branches also includes religious and charitable establishments.

12. For the year 1972, according to the Company Law Department (GOI) sources, there were 541 foreign branches operating in India. Of these, only 79 had assets of Rs.1.00 crore and above, in India; a bulk of them (283 branches), individually, had assets of less than Rs.1.00 crore. The total assets of the 362 branches were placed at Rs.1001.23 crores.[5] The big 79 (each with more than Rs.1.00 crore assets) accounted for Rs.951.56 crores and the total assets under the control of the 283 (each with less than Rs.1.00 crore) were only rs.49.67 crores. A similar picture is obtained if one examines the pattern of assets, held by the foreign branches, for the year 1974 or 1976. The only difference is that the magnitude of assets held by large sized foreign branches (each with assets of Rs.1.00 crore and above) was Rs.1379.66 crores and their number increased to 104 by 1976.

13. A distribution of foreign branches, according to the assets under their control, showed high level of concentration. It was true for 1972, 1974 and 1976. The largest foreign branches during 1976 being: Burmah Shell (Rs.70.27 crores), Calcutta Electric (Rs.66.05 crores), E.I.D. Parry (Rs.45.85 crores), Caltex (India) Ltd. (Rs.36.92 crores), and Indian Leaf Tobacco Development Company (Rs.29.04 crores).[6]

14. The assets under control of the branches of foreign companies need also to be seen alongwith the sales turn-over under them. The largest

turn-over was for Burmah Shell Oil Storage and Distributing Company (Rs.515.00 crores) and Caltex (India) Ltd. (Rs.144.23 crores). Both of the branches are now absorbed in the public sector. The next largest companies were: E.I.D. Parry (Sales: Rs.77.52 crores); Assam Oil Company (Sales: Rs.76.46 crores); and Indian Leaf Tobacco Development Company (Sales: Rs.42.78 crores). The essential point to be noticed is that there were foreign branches which controlled very large turn-over and these accounted for a high percentage of the economic activity under the branches.

15. With the taking over of oil companies, the assets under direct foreign control through branches has declined. Also, with the adoption of FERA most of the foreign branches (bulk of whom were in tea plantations) are getting registered as Indian companies with partial sharing of equity by the Indian public. Very soon the only foreign branches operating in India would be in non-manufacturing and non-trading sectors or as agency offices for their parent companies.

Foreign Subsidiaries

16. The next important form of foreign capital in India is constituted by the Indian companies registered under the companies Act 1956 and having majority equity held abroad. The number of foreign subsidiaries has been on the decline. In the year 1976 the number was placed at '171' by the Company Law Department. The number of foreign subsidiaries stood at 243 in 1966. While the number of foreign subsidiaries declined by 29.63 per cent between 1966 and 1976, the assets under their control increased from Rs.896.77 crores in 1966 to Rs.1626.16 crores in 1976 i.e. by nearly 81.34 per cent.

17. As a result of the enactment of FERA, a majority of the subsidiaries are on way to the so-called 'Indianization' process. Once the equity held abroad is reduced to less than 51 per cent the foreign subsidiary companies will no more remain foreign in character (as under the Companies Act, 1956). Some of the important foreign subsidiareis have already become 'Indianized'. The significant ones being I.T.C. with a turn-over of Rs.325.00 crores in 1975; Vazir Sultan Tobaco (Rs.89.68 crores), Godfrey Philips (Rs.57.61 crores), Hoechst Dyes and Chemicals (Rs.45.68 crores) and Macneill Barry (Rs.30.69 crores).

during 1969-76, 108 foreign subsidiaries were dropped out of this category and 36 were added as new registrations. A number of the new registration being the ones which operated as foreign company branches earlier.

18. We (at the Indian Institute of Public Administration), are attempting to collect some information on all foreign subsidiaries operating in India. The final results of the study (which has been sponsored by the Indian Council of social Science Research) would, in all probability be published in another few months. On the basis of the tentative results it can be said that the net assets under the control of foreign subsidiaries have been growing at a fast rate. In 1976, the net assets of 171 foreign subsidiaries stood at nearly Rs.1626.77 crores as against a total of Rs.896.77 crores for 243 subsidiaries of 1966. The gross income (sales <u>plus</u> other income) of the foreign subsidiaries was estimated to be a little more than Rs.2500 crores during 1976.

19. A closer look at the foreign subsidiaries reveals, as in the case of foreign branches, a high degree of concentration of assets and sales in the hands of a few large foreign subsidiaries. For instance, out of the estimates gross income of Rs.2500 crores for the 171 foreign companies, the <u>top five</u> accounted for Rs.725.90 crores <u>i.e.</u> a litle less than 30 per cent. Each one of the five companies had more than Rs.100.00 crores as gross income. The five were: Hindustan Lever, Dunlop, Brooke Bond, Union Carbide and Indian Explosives. Foreign subsidiaries having gross income of Rs.50 to 100.00 crores were only 11 and accounted for Rs.858.17 crores <u>i.e.</u> another 34.2 per cent of the gross sales and other income of the foreign subsidiaries. It would suffice to say that while the number of foreign subsidiaries (during 1976) was 171, the bulk of the sales and assets were in the hands of a small number <u>i.e.</u> less than 50 subsidiaries accounted for nearly 90 per cent of the gross income of all the foreign subsidiaries.

20. How many of these foreign companies can be treated as multinationals? The answer to it would depend on the definition. If one accepts that a multinational would be a company which operates in more than two countries, and has large assets/sales to qualify as one of

the giants (may be one of the top 100 companies) in its 'home' country, one could be quiet safe in making a generalization that the foreign capital in India is essentialy an issue of multinational corporations.

Foreign Capital & its Inter-linkages

21. The Indian corporate legislation treats each foreign company as an independent entity. The MRTPc establishes affiliations on the basis of the inter-connections existing in India. The official approach to foreign companies is determined on the basis of the Indian assets or share in the Indian market. This approach does not appear a realistic one. For instance, to consider Lintas (a foreign branch, with Unilever as parent company) separate from Hindustan Leverl (another subsidiary of Unilever) would in no case be justified. So also would be the case with the ITC and Vazir Sultan; India foils and T.I. group of companies, GEC and Marconi International, and Siemens-Philips and Polydor. The examples can be multipied. The point to be underlined is that if the MRTPC attempts to treat Indian companies, which are closely interlinked, as an "industrial house" why should the same not be done for foreign companies on the basis of their international affiliations and inter-conections?

Foreign Control through Minority Equity

22. The foreign branches and subsidiaries are clearly cases of foreign controlled undertakings. But it is well known that for exercising control over a company it is not necessary to have majority equity shares. The management control can be effectively exercised with as little as 10 per cent shares. This is particularly so when the equity shares are very widely dispersed and no other single individual or group holds substantial equity. For the Indian corporate sector this point is well established and does not warrant much discussion. One should imagine that all such companies, which have recently been asked to cdilute foreign equity holdings to a maximum of 40 per cent, would continue to be under the effective management and control of the foreign entities. The companies Act de facto foreign companies can still be treated as foreign and not Indian because the foreign equity has been brought down to less than 51 per cent.

23. An important area of influence, control and place of multinationals in India also lies in Indian companies which depend on supply of technical know-how from them and have licensee status with the giant world corporations. This being particularly so when the foreign collaborating corporations also happen to hold substantial (more than 10 per cent) equity holdings in the Indian companies. It needs to be underlinzed that the influence of a multi-national corporation on an Indian company would be larger, in all probability, if some of the associate companies of the Indian collaborating undertaking were also dependent for technical know-how on the same multinational group of companies. For instance, if a number of companies of 'X' Industrial House were in collaboration with one MNC, individual companies of the 'X' House could be expected to have coordination with the directly-held companies of the same MNc in India. This may appear to be only an academic assumption. However, why not make an attempt to study this phenomenon on the Indian scene?

24. To assess the place and role of MNCs in the Indian economy, one needs to approach the Indian scene from the MnC's end. For instance, the first step should be to have a complete list of foreign companies which are present in India in different forms - inclusive of '0' to '100' per cent equity participation. After this one should group the foreign companies together on the basis of their international links, affiliations and business associations. This may help us to clearly identify the multinational groups working in India. In this process we may also discover that some of the MNCs in India operate from a number of countries under different names and are controlled from places located outside their 'home' countries. The next stage would be in collecting certain basic information on compaies in which MNC groups have influence through equity, collaborations or other means. The coverage could be extended for examining the effectiveness or otherwise of many an Indian legislative provision.

SECTION - III

25. There is a widely shared public impression in India and abroad that the Foreign Exchange Regulation Act 1973 (FERA) is an important and effective instrument of control and regulation of foreign controlled companies having business activities in the country. Under the FERA provisions: (a) all branches of foreign companies in India are required to get themselves registered as Indian Companies under the Companies Act 1956; and (b) the foreign subsidiaries are required to reduce foreign holdings in equity in a substantial manner. The dilution of foreign equity is to be affected within a specified time. The administrative guidelines provide that undertakings which are:

(a) engaged in manufacturing activities falling under the list of priority industries;

(b) predominantly manufacturing for exports;

(c) utilizing sophisticated technologies;

(d) in trade but have developed skills or facilities (distribution network etc.) not idigenously available;

(e) tea planations; and

(f) branches of foreign companies (engaged unspecified activities)

should not have more than 74 per cent of the equity in the hands of foreigners. The rest of the foreign branches, Indian subsidiaries of foreign companies and companies having 40-50 per cent of equity holdings under foreign ownership have to dilute the foreign interest to a maximum of 40 per cent.

26. The objectives of the equity dilution strategy, as contemplated under the FERA could be: (a) to ensure that with majority equity with Indian the control over the companies could, in case of need, be taken over in Indian hands through the simple process of majority voting; and (b) to ensure that foreign companies are not allowed to be continuing drain on the foreign exchange resources of the Indian economy.

27. Let us examine as to what extent could the dilution strategy help the country in achieving the above objectives. Can the Indian shareholders takeover the control of a company through majority voting ? The answer is in the negative; because, the Government of India has approved contracts which do not allow the majority shareholders the same

rights as would be true in the case of ordinary Indian companies. To illustrate our point the Article 187 of the Colgate-Palmolive (India) Limited is reporoduced below:

(1) "Union Colgate ceasing for any reason whatsoever to hold at least 40% of the total, issued and paid-up equity share capital of the Company or upon Colgate terminating a separate Agreement dated the 28th day of September 1978 entered into by and between Colgate of the Part and the Company of the Other Part by a notice in pursuance of any of the provisions therein contained, the Company shall within 60 days from the date of receipt of this notice (a) discontinue the use of the words 'Colgate' and 'Palmolive' as part of its corporate name, trade name or trading style, (b) discontinue the use of the corporate logos of colgate and (c) take all such steps as may be necessary for the purpose of chanaging its corporate name, trade name, or trading style as aforesaid. Any new corporate name, trade name or trading style or logos, which the Company may adopt shall not consists of any name, word, letter, expression, logo, symbol or device in any language, script or alphabet similar in sound or appearance to the words ' Colgate-Palmolive' or either of them or the corporate logos of colgate. All the members of the Company shall be deemed to have undertaken to exercise their rights as members and specificially their voting rights in such a manner as would enable the Company to comply with or implement the provisions of this Article and the aforesaid Agreement and shall be deemed to have become members of the Company on this basis;

(2) In case the Company is wound up and its business and/or movable or immovable property and rights are transferred to any person, company or other body corporate by sale or otherwise, it shall be one of the conditions of the transfer that the words 'Colgate' and 'Palmolive' or either of them and the Corporate logos of Colgate shall not be used in any manner by the transferee or transferees without the prior consent in writing of Colgate; and

(3) In case Colgate shall sell or otherwise transfer its shares in the Company or in case for any reason whatsoever (including force majeure) Colgate shall not be in a position to exercise its rights

as shareholders, Colgate shall have the right to require the Company, by a registered letter, to discontinue forthwith the use of the trade marks 'Colgate' and 'Palmolive' on all Products".

It is obvious that with the above type of terms already approved by the Government of India there cannot be any change in the management. If the company has to continue as such it must remain under the direct control of the former parent company.

28. With dilution of foreign equity, it is logical to expect that the amount of foreign exchange remittances, on dividend account, would be smaller. The implied assumption in enacting the FERA, the first specific legislation in India to control foreign companies, is that foreign controlled companies make high profits and one of the manor item responsible for foreign exchange drain was in the dividend transfers. We made an attempt to examine this assumption on the basis of empirical evidence.

29. The objectives of our study was to identify the pattern of foreign exchange utilization by the foreign subsidiaries, on a census basis for the year 1976. However, due to certain difficulties we could cover only 136 foreign subsidiaries out of the 171. Out of the 171 foreign subsidiaries, 108 were public limited ones; the study covered 99. In terms of assets, the coverage for public limited companies was nearly 99 per cent. Out of the 63 private limited foreign subsidiaries, we could collect data on 37 companies only. the asset coverage for private limited foreign subsidiaries was a little over 80 per cent. In aggregate, though our survey covered only 136 subsidiaries out of the 171, the asset coverage is nearly 97 per cent. For the present, the results of our study would not be materially changed if one could cover all the 171 foreign subsidiaries. Partly, to compensate the limitations we included 19 companies which are subsidiaries to the foreign subsidiaries.

30. Table-1 shows the pattern of foreign exchanger utilization by 155 foreign subsidiareies during 1976. The total foreign exchange utilized by the foreign subsidiaries during 1976 was Rs.220.43 crores. Out of this the dividend payments accounted for Rs.10.7 crores i.e. less than 5

Table - 1

Showing Pattern of Foreign Exchange Utilization by foreign Subsidiaries during 1976

Sl. No.	Head	Amount Rs.Crores	%
1.	Capital Goods	6.64	3.02
2.	Raw Materials	188.93	85.71
3.	Spares and components	4.71	2.14
4.	Interest	1.36	0.62
5.	Dividends	10.70	4.85
6.	Know-how	1.96	0.89
7.	Royalty	0.80	0.36
8.	Travelling Expenses	0.25	0.11
9.	Commission	1.73	0.78
10.	Other	3.35	1.52
11.	Total	220.43	100.00

per cent of the total. The most important item responsible for foreign exchange burden was 'imported raw materials".

31. If the objective of the FERA was to effectively regulate the transfer of foreign exchange, the equity dilution approach can not provide the real answer. The impact of the FERA would remain to be only marginal. The real item to be controlled and regulated would be the import of raw materials.

32. We may also mention that an important feature of the 'raw material utilized' by the foreign subsidiaries was that a substantial part of it was imported by the foreign subsidiaries directly on c.i.f. basis. The direct imports by the foreign subsidiaries were of the magnitude of Rs.162.98 crores; out of this raw materials accounted for Rs.144.10 crores. Were these imports from the parent companies ? Were the prices

paid higher than the international prices ? These and many more are questions which need to be answered on the basis of facts.

33. In conclusion, it may be said that there was need to undertake empirical studies in the area of foreign capital and the multinationals so that many of the assumptions made and policies formulated, for regulation and control of the foreign capital, can be made more realistic. We need to establish with adequate evidence whether foreign capital in India as a whole and in different sectors has helped us move towards a more self-relient economy. What are the specific reasons for high growth, rates of the foreign companies? Do foreign companies bring foreign capital? And if so at what price ? There are a host of questions regarding the impact and role of foreign companies, particularly the MNCs, on employment, balance of payments, import substitution, transfer of technology and other national objectives. These need inquiry. One hopes that studies in this area would have the necessary impact in making the Indian regulatory mechanism and other policies more realistic and effective.

NOTES

1. For a discussion on the definition, the nature, the impact and tensions, and a tentaive programme of action with regard to MNCs see: U.N.MultinationalCorporations in World Development, 1973, New York, and UN Transnational corporations in World Development:A Re-Examination, 1978, New York.

2. The Group comprized of 20 members. The terms of reference of the Group were: "to study the role of multinational corporations and their impact on the process of development, specially that of the developing countries, and also their implications for international relations, to formulate conclusions which may possibly be used by Governments in making their sovereign decisions regarding national policy in this respect, and to submit recommendations for appropriate international action". The reslution further requested the Secretary-General to submit the report of the Group, "together with his own comments and recommendations, to the Economic and social Council at its fifty-seventh session". UN, The Impact of Multinational Corporations on Development and on International Relations, 1974, New York.

3. The two expressions TNCs and MCs in this paper are to be treated as the same.

4. For information on the organization and the objectives of the UNCTC see: The CTC Reporter, Vol.1, No.1, December 1976, UN, New York.

5. The estimate of assets is based on the latest available accounts for some branches. The estimate for the year 1972 is, therefore, the nearest approximation.

6. Burmah Shell and Caltex have been taken over in the public sector, EID Parry converted into an Indian company and India Leaf Tobacco Company has merged with the ITC (a company of the british American Tobacco - a world giant in tobacco).

WORKING PAPER NO. 2

A Preliminary Survey of Excess Industrial Capacities with the Indian Corporate Sector

(Some implications of Industrial Policy)

Statement of July 23, 1980.

S.K. GOYAL

PREFACE

This study presents the results of a preliminary survey of licensed and installed capacities of Public Limited Companies quoted on the Stock Exchanges of India. An attempt was made to obtain the latest available information as also cover the largest number of companies in the survey. Due to non-availability of data it has not been possible to include each and every quoted company. However, we believe the survey in its present coverage is representative enough to provide an objective basis for discussion on the implications of the new Industrial Policy as announced on July 23, 1980.

My colleagues, Chalapati Rao and K.V.K. Ranganathan shared the main responsibility of compiling the data in a remarkably short time. The responsibility for the views expressed and shortcoming, however, is of the author.

S.K. GOYAL

July 28, 1980

The Minister of State for Industry in his Industrial Policy Statement made in the Lok Sabha on July 22, 1980 announced the intention of the Government to recognize excess industrial capacities which have already been established by Indian Industrialists in violation of the Industries (Development and Regultion) Act, 1951. The Government's decision is motivated by their feeling that productive capacities endorsed on original licences do not reflect the full productive potential of the units. It is asserted that "it would not be in public interest to permit licensing procedures or a rigid locational policy to stand in the way of maximising production". The regularization would be confined to selected industries; the Government, however, have not enunciated the criteria to be employed for selecting the industries or units which would benefit from the proposed relaxation.

2. Industrial licensing system in India was envisaged as an important instrument to ensure regulated industrial development of the economy in the overall framework provided by Five Year Plans. Since adoption of the licensing system all large industrial investments (New undertakings, substantial expansion, etc.) require prior government approval. Additionally, for certain industries an industrial licence is required irrespective of the size of investment. In a resource scarce country intending to achieve socio-economic development the licensing system is visualized to regulate new investments for two basic purposes, namely, (i) to ensure that the limited investible national resources (internal and foreign exchange), do not get diverted to non-plan or low priority industries, and (ii) to seek coordinated establishment of new industrial capacities to avoid duplication and wasteful use of national resources. The Indian licensing system, however, is also expected to be an administrative mechanism to : (iii) protect small scale and cottage industries (by reservation of industries); (iv) avoid locational concentrations (inter and intra regional), (v) screen new investment proposals from the view point of conserving foreign exchange and rational distribution of scarce raw materials; (vi) restrict emergence of monopolies and furtherance of concentration of economic power in private hands; (vii) regulate foreign private investments and technical collaborations in a manner that local entrepreneurship and indigenous

technology and know-how are provided a certain degree of protection; (viii) ensure that new industrial projects would have the requisite supply of power and other infrastructural facilities; and (ix) ensure that other objectives of national policies were not violated (e.g., reservations for public sector and agro-based cooperatives). It was only because of the multiple objectives assigned to the only because of the multiple objectives assigned to the industrial licensing system that a copy each of the application for a new industrial licence was sent for comments to the council for Scientific and Industrial Research, the D.G.T.D., the Planning Commission and other economic Ministries and Department's of the Central and State Governments. Since the purpose of establishing the licensing system in India was governed by a multiple of considerations any amendments to the system would have to be seen in an overall perspective.

3. All governmental licensing systems have an element of regulation and can be viewed as negative administrative mechanisms; at the same time it is a positive act for those who are able to qualify and are issued a licence. A licence holder has a positive advantage in obtaining credit, raw materials and other administrative considerations. When viewed in the context of planned development the impact of the industrial licensing system is essentially a positive one. No licensing system could be non-restrictive. If it was so, the right question to ask would be whether the system has been effectively implemented or its use has been an arbitrary one? Has it been used to favour the chosen few? The Dutt Committee did provide an answer. Secondly, are there instances when industrialists have violations in terms of new investments being undertaken without obtaining prior permission, how have the concerned been penalized?

4. In a society that suffers acute inequalities in income and wealth the pattern of market demand for goods and services is bound to be a mirror reflection of the level of disparities. If allocation of investments was allowed to be determined by market mechanism, it is obvious that resources would be wholly diverted to meet the needs of the upper income groups in the country. Those who live below the poverty line can hardly offer any competition for goods needed by the upper strata of the society. Under planning, industrial licensing has to

ensure that investments in non-priority areas do not take place. In short, the logic of the industrial system in India lies in determining allocation of resourcesand in curbing aggregate investments. The Governmental interventions under planning are meant to place curbs on production of certain types of goods but not on all investments. This is why once an industrialist is able to secure a licence he is able to get capital goods imported, land allotted at nominal price, raw materials sanctioned, adequate credit at low interest rate provided and a host of other promotional facilities and priorities. A pertinent question in this regard would be as to who were the applicants that did not get a licence, and why? Secondly, what were the precise products in which licence applications were rejected for different reasons?

5. Issue of licences is one thing and their implementation another. The Government should be able to assess if there were some who had pre-empted the entry of others to maintain product monopoly in the economy. Similarly, the gaps between licensed, installed and actual production need to be identified so that restrictive and monopolistic practices can be detected at any point of time. Already the government has a system of obtaining production statistics and form "G" to be ableto assess progress at implementation of industrial licenses and letters of intent. The present administrative system does not allowe such monitoring. The Dutt Committee had computerised all licensing records for the period of 1956-66. There was a detailed report showing how the data can be kept updated and why monitoring of the licensing system was a pre-requisite for avoidance of many a malpractice. This was in July 1969. The Government have now decided to implement the dutt committee recommendations and set up a monitoring system. It is a welcome decision, though a belated one.

6. For a long time the government are aware that a large number of industrialists have been violating the provisions of the IDRA,1951 under which the licensing system was established. A list of such violations, as identified by the DGTD in 1967, was included in Appendix III of the Dutt Committee Report (1969). Instead of taking any punitive action the Government have already regularized those violations. In 1975 some industries were identified for liberalization of licensing provisions.

An automatic escalation of capacities in the industrial licences was allowed at the rate of 5 per cent per annum. And now the proposal is to extend the list of industries which would have automatic provision for enhanced capacities. It also appears that in some industries the Government is seeking to go beyond the 5 per cent provision.

7. In view of the Government's announcement to regularize un-authorised capacities it appears relevant to ask:

(i) What is the extent of violation of IDRA, 1951; and

(ii) Who are the industrialists who would stand to benefit from the new policy?

Empirical survey of the present status of industrial capacities alone can help us have an objective base to assess the implications of the new policy. The Government has not so far given the list of industries which would be covered under the policy.

8. Under the Companies Act, 1956 all corporate entities are under legal obligation to report on their licensed and installed industrial capacities in the Annual reports. The capacities installed are certified by the respective managements. The Government have no system to verify if the reported statements were correct. The data on installed and licensed capacities can only be collected from the company annual reports. Since information on capacities is provided by the companies themselves, this can be taken to represent a realistic assessment, from the industry viewpoint. Total number of companies in India is very large and it is not easily possible to have census of industrial capacities for the country as a whole. However, if one limits ones area of inquiry to quoted public limited companies a reasonable capacity survey is possible. The data on capacities for public limited companies which are quoted on the Indian stock exchanges are compiled by the Bombay Stock Exchange Foundation. Though the actual number of public limited companies covered by the Stock Exchanges is about 2,000 only, its coverage of the corporate sector, in terms of paid up capital, accounts for nearly 90 per cent. A good number of the public limited quoted companies are engaged in economic activities which require no licence under the IDRA, 1951. After excluding non-industrial companies we identified all such companies, which had either installed capacities or actual production for any product higher than the licensed

capacities. It may be mentioned that the licensed capacities, as reported by corporate undertakings, invariably, take note of the authorized excess capacities which may be due to export entitlements, becouse of policy provisions of 1975 or other reasons. The data on capacities analysed here refer to the years 1978 and 1979 in most of the cases. Since the coverage excludes private, partnership and unquoted public limited companies, the extent of licensing violations in India, as discussed here is an under-statement. It would be also necessary to underline that there are a good number of disputed cases. For instance, Colgate Palmolive was reported to have installed capacities prior to the enforcement of the IRDA. Secondly, there are long standing disputes on the methodology for capacity asessment. Thirdly, frequent and *ad hoc* policy changes have resulted in a variety of administrative problems. And lastly, under the system only capacities are licensed and not actual production. It may be mentioned that we might have missed inclusion of some cases due to imperfections of our information base.

Number of Excess Capacity Cases:

9. Table-1 shows Industry-wise distribution of excess capacities in the public limited and quoted companies according to the degree of excess capacity/production. In all, 252 companies in our survey had reported to have installed excess capacities than the licensed ones. A number of companies had established excess capacities in more than one product. Product-wise, the number of excess capacities established was 565. The degree of excess capacities established varied significantly. Out of 565 cases, 192 cases are such where the installed capacity is excess by less than 25 per cent; 66 cases were of 25-26 per cent excess capacity;

Table - I

Showing Industry-wise Distribution of Excess Installed Capacity/Production Cases and Companies According to the Extent of Violation

Sl. No.	Industry	(Percentage Excess) Upto 24.9	25.0-25.9	26 - 49.9	50 - 99.9	100 & above	Total	(Numbers) No. of Companies
1		2	3	4	5	6	7	8
1.	Cement, Potteries	9	2	3	6	2	22	18
2.	Cotton Spg. & Wvg.	7	5	1	-	-	13	4
3.	Jute, Synthetic, Woollen Textiles	16	5	5	2	2	30	13
4.	Paper Pulp & Hard-board	8	2	1	1	-	12	8
5.	Electrical Equipments and Cables	39	6	17	15	26	103	37
6.	Metals, Alloys Pdts.	30	3	16	10	28	87	50
7.	General Engg.	20	7	9	15	10	61	33
8.	Chemicals, Dyes and Pharmaceuticals	36	20	24	18	60	158	52
9.	Miscellaneous	27	16	1	10	10	79	37
10.	Total	102	66	92	77	138	565	252

92 cases where the excess is by 26-50 per cent and in another 77 cases the excess was of the order of 50-100 per cent. In 138 cases, the degree of excess capacities installed or actual production in the year was more than double of the licensed capacity.

10. Viewed from the broad industry classification, the most prominent industrieal area, where excess capacities exist, was Chemicals, Dyes and Pharmaceuticals (158 cases), followed by Electrial Equipment and Cables (103) and Metals and Alloys group (87). The general industry classification, however, is too wide to draw specific policy conclusions. Additionally, the initial industry classification of companies was invariably done on the nature of companies' predominent activities. Due to diversification in the economic activities of many a company the past company classifications require to be altered. The broad industry classification, in our opinion, allows only a limited basis for policy discussion.

Classification of Companies

11. To determine the broad character of industrial groups which woud be the ones that would mainly benefit from the new industrial policy, the excess capacity cases have been grouped according to group affiliations of the companies for which the excess capacities are observed. Broadly, the categories are : (i) Indian Monopoly Houses, (ii) Multinational Corporations (FERA companies) and (iii) others. The association of companies has been determined on the basis of the Dutt committee and the official Lists of companies reported to be registered under the MRPT Act, 11969 and the Foreign Exchange Regulation Act, 1973. There is no legal definition of a multionational corporation. For purposes of the present study, companies having 40 per cent and more of the equity held abroad, have been treated as constitutents of the category of multionational corporations. This is a very limited definition. Our studies at the Institute of Public Administration reveal that a substantial number of erstwhile Branches and subsidiaries of foreign companies have recently reduced foreign equity holdings to 39.9 per cent only. This places them outside the net of FERA. If one were to realistically determine foreign character of Indian companies, it would be more appropriate to classify companies on the basis of managerial control and other operational business realities than the pattern of equity holdings. We have reasons to believe that a good number of the companies now included under the category of 'others' could indeed be classified under the category of multionationals. Similarly, some of the companies having closer business links with Indian Houses than what is voluntarily disclosed or was found by past official Committees could be shifted to the category of Indian Monopoly Houses. The limited point to be underlined is that the share of Monopoly Houses and Multinational corporations in the total number of excess capacity cases is an understatement as reflected in the present analysis.

Methodological Limitations

12. The present analysis is limited to percentage analysis of excess capacities. This methodology has serious limitations which need to be clearly understood. Under percentage analysis, the degree of excess capacities in large and small industrial units get equated even when a large unit had excess capacities of much larger significance in absolute

terms. A unit, for instance with 100 tonnes licensed capacity of a product and having 200 tonnes installed capacity would be seen on the same footing as a large unit of 1,000 tonnes licensed and 2,000 tonnes installed capacity. The percentage approach, therefore, has a built-in bias against smaller units as it reflects the degree of violations by monopoly Houses and multionational corporations, which are bound to have a much larger base, in a softer light. Secondly, one must keep in mind that the capacities licensed for different products are not comparable. For instance, the percentage of excess capacity for 'bolts and nuts' should not be treated equal to the percentage excess in the number of complete large machines. The analysis of violations in terms of percentages, though useful for examining implications of a general policy of capacity relaxations, needs to be carefully read. One way of approaching the problem could be in taking the rupee value of the licensed and excess capacities installed by the companies. Alternatively, the capacities could be measures in terms of investments needed to install these. This task, however, can be undertaken by an official agency alone. Thirdly, there would be substantial difference in the economic significance of excess capacity violations if the products are seen with reference to market conditions. For instance, a violation in an area where the product has a premium, due to some reason, one thing and the same extent of violation for a commodity having no market premium, another. Fourthly, while examining excess capacity cases it needs to be ascertained if the violating company had established additional capacities while new capacities were on the "Banned Items" list or new licences were only being issued for backward area locations, small scale sector or for certain specified group of entrepreneurs. For evolving and more so for implementation of an appropriate policy towards the excess capacity phenomenon, the Government has to go case by case. Any general policy of liberalization in licensing would be illogical and against public interest. The scope of this study is, however, a limited one. The important aspects have been only listed here.

Excess Capacities Mainly with MNCs and Houses

13. Table-II shows the distribution of excess installed capacities as per association of the companies involved. The largest number of excess

capacity cases belong to Multionational Corportions and Indian Monopoly Houses. Between themselves they account for nearly two thirds of the excess capacities. The largest number of cases, and particularly those having more than 25 per cent excess installed capacity, is of Multionational Corporation (See line 2 and columns 3, 4, 5 and 6 of Table-II). This needs to be viewed in the background of the total number of FERA companies (which stood at 492 during 1979). As against this, the number of MRTP Act and Dutt Committee listed companies of the Indian Monopoly Houses would be nearly 1,500. For the category of 'others' the total universe may be placed at a minimum of six to seven thousands. The total number of the multinational corporations (FERA companies) engaged in industrial activity is small. For instance, in 1978, the number of subsidiaries of foreign companies was only 204. Out of these a good number was of tea companies which is not covered under industrial licensing. In terms of size, there were nearly sixty MNCs only which can be considered to have significance in the national context. Therefore, the fact that the largest number of excess capacity cases are of the MNCs would suggest that foreign companies, in general, show little regard for Indian regulatory legislations. Viewed from another angle the Indian regulatory system, at least in licensing, has been least effective over foreign companies. It should also be

Table - II

Showing Distribution of Excess Installed Capacity Cases According to the Nature of Association of the Companies

Sl. No.	Nature of Companies	Upto 25%	25.0 - 25.9	26.0 - 49.9	50.0 - 99.9	100 & above	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Multinationals	45	27	33	26	69	200
2.	Indian Houses	77	20	24	17	31	170
3.	Others	70	19	35	34	38	196
4.	Total	102	66	92	77	138	566

noted that since foreign private investments are supposed to be only in such industrial activities where indigenous technology is not available, the MNCs in India would invariably enjoy, a monopoly position in the economy. Thus, the fact that MNCs would now be the main beneficiaries of the new industrial policy (as indicated in the statement of the Minister of State on July 23, 1980 in Lok Sabha) throws a variety of serious issues with regard to the processes of decision-making at the Ministry and national levels.

14. The capacity of MNCs in violation of national regulations is of a far superior nature than that of others. A telling example of this is provided in the case of Colgate-Palmolive (India) Ltd. The following extract from the company's Annual Report for the year 1979 refers to the capacities installed in the area of cosmetics and toilet preparations.

> "The Industrial undertaking was established prior to the enactment of the Industries (Development & Regulation) Act, 1951. The Company, therefore, did not require any industrial licence at the time of its undertaking. In 1957, the Company was granted a licence for substantial expansion for the manufacture of Tooth Paste, Face Cream and Snow, Talcum and Face Powders, Oils and Shampoos and other requirements. The company applied for endorsement of productive capacity on its Registration Certificate under the Industries (Development & Regulation) Act, 1951 in pursuance of Government Notification No. S.O./IDRA/10/75/2 dated July 5, 1975. The Government's endorsement of the annual productive capacity communicatd through their letter of February 14, 1979 was for Tooth Powder 771 tonnes and in respect of Tooth Paste works out on three shift basis to 1388 tonnes which are much below the installed capacity of 2,025 tonnes and 6,982 tonnes respectively and the actual production achieved during 1979 of 2,400 and 5,964 tonnes respectively for these products. The Company does not share Government's view in this regard and it has informed Government accordingly", p.21.

A number of products, in which excess industrial capacities are reported to have been established by MNCs are, incidently, reserved for the small scale sector and the products cater to the needs of the Indian elite. If unauthorized capacities have to be regularized at one stroke one fears that the very justification of maintaining the list of products exclusively reserved for small scale units would disappear. There are two additional aspects of the licensed capacities with foreign companies. One, one finds that the plea for having excess capacities is similar in the case of a number of MNCs. Is it due to administrative coordination among the MNCs? Two, one also comes across cases where excess installed capacities are also accompanied by a much higher production and sales of these products. For instance, Philips have a

licensed capacity of 2,25,000 fittings, installed capacity was 2,50,000 and actual sales stood at 9,12,000 pieces (the sales being more than four times the licensed capacity) the value being Rs. 7.90 crores for the year 1979. There are a number of other instances of similar nature. The higher sales can only be explained in market purchases by the Company which are sold by it under its own brand name. The company, in such operations is acting as a trading set up.

Table-III shows a distribution of the number of instances of excess capacity for the MNCs. It would be observed that one most prominent company in the list is Philips (PEICO) with 12 products in which higher

Table - III

Showing Names of MNCs Having Excess Capacity in 4 or More Products

(Number of Cases)

Sl. No.	Name of the Company	Less than 25%	25.0-25.9	26 - 49.9	50 - 99.9	100 and above	Total
1.	Philips (PEICO)	8	-	3	1	-	12
2.	Hindustan Lever	-	3	1	3	4	11
3.	Dunlop (I)	2	5	2	2	-	11
4.	Siemens (I)	3	-	2	1	4	10
5.	Schrader Scovill Duncan	-	-	-	1	9	10
6.	Sandoz (I)	-	-	1	3	5	9
7.	Boehringer Knoll	2	-	-	-	6	8
8.	G.K.W.	1	-	3	-	3	7
9.	Glaxo	1	-	-	-	6	7
10.	Bestobell	1	-	2	1	2	6
11.	Union Carbide	1	2	1	1	1	6
12.	G.E.C.	2	-	1	1	2	6
13.	English Electric	3	2	-	-	-	5
14.	Hindustan Ferodo	-	1	3	-	1	5
15.	Pfizer Ltd.	-	1	-	1	3	5
16.	Richardson Hindustan	-	2	1	-	2	5
17.	Steel & Alloy	3	-	1	-	-	4
18.	Bayer (I)	-	1	-	-	3	4
19.	Indian Oxygen	2	1	-	1	-	4
20.	Reckitt & Colman	-	-	1	1	2	4

Note: Hind Rectifiers, Hindustan Brown Boveri, Indian Aluminium, Garware Paints, Goodlass Nerolac & Indian Explosives had three cases each. Two cases of excess capacities existed with Hindustan Pilkington, Triveni Tissues, Aluminium Industries, Khandelwal Ferro Alloys & Fibreglass Pilkington. One case each was observed for: Chroride India, I.C.L., Stone & Platt, Shah Malleable, Wheels India, Associated Bearing, Gabriel Indabrator, Ingersoll Rand, International Combustion, Albright Morarji, BASF, Parry, Crescent Dyes, Cyanamid, British Paints, CEAT, India Foils, Pierce Leslie, Vazir Sultan, WIMCO, IDL & J.L. Morrison.

capacities are reported. It would be desirable to examine each case individually to determine economic implications of the excess capacities. In a good number of cases it is seen that the installed excess capacity is uniformly higher by 25 per cent. This, probably, shows that such companies have reported the installed capacity is supposed to be a technical matter, de-facto it has been dealt with as an administrative and legal issue.

Table-IV shows the number of excess capacity cases for each individual House. The most striking case is that of the Birlas, with 46 instances. The second position is of the Tata's with 8 products,

Table - IV

Showing the House-wise Distribution of Excess Capacity Cases

Sl. No.	House	Less than 25%	25 - 25.9%	26.0 - 49.9%	50.0 - 99.9%	100.0 & above %	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Birla	18	4	7	8	9	46
2.	Tata	5	2	-	-	1	8
3.	Walchand	1	-	1	2	3	7
4.	Bangur	4	-	1	1	1	7
5.	Sarabhai	1	2	1	-	2	6
6.	Shri Ram	1	2	1	-	2	6
7.	Kamani	-	-	-	1	5	6
8.	J.K.	2	2	1	-	-	5
9.	Mahindra	2	-	1	-	2	5
10.	Killick	4	-	-	-	-	4
11.	Mafatlal	4	-	-	-	-	4
12.	S.P. Jain	1	-	1	-	1	3
13.	Sahu Jain	-	1	1	-	1	3
14.	Escorts	1	-	-	2	-	3
15.	Kirloskar	2	-	1	-	-	3

Note: Two cases each of excess capacity were found for: Thapar, Amin, Bajaj, Chidambaram, Kasturbhai Lalbhai, Khatau and Modi; and one each for A.R. Kumar, Bird Heilgers, G.K.W., Goenka, Golden Tobacco, I.T.C., Indra Singh, Kothari, Kilachand, Mangaldas Parikh, Mohan Meakin, Muthiah, Naidu G.V., Naidu V.K., Rallis, Raunaq Singh, Somaiya & Thackersay.

followed by Bangur, and Walchand with 7 cases each. In view of the most prominent place occupied by the Birla's it may be pertinent to reproduce two of the main observations of the Dutt Committee with regard to this House.

On the question of industrial licensing, the ILPIC observed:

> "...The Twenty Larger Industrial Houses obtained a share which was slightly higher in some respects than others in the private corporate sector. But whether in the case of individual products or in regard to individual Large Houses and Large Companies, disproportion is observed only in the case of a few, the most prominent among them being Birla" (emphasis added), p. 74.

And with regard to pre-emption, the ILPIC observed:

> "...From our aggregative analysis and case studies, we have found that among the Houses which were responsible for various forms of pre-emption, the most prominent is the House of Birlas. They held the largest number of unimplemented licences, made repeated attempts to obtain a large number of licences for many products, created excess capacities and tried to have them regularised afterwards and also produced more than authorised capacities" (emphasis added), p. 95.

This study has attempted to present a factual position with regard to excess capacity instances as existing during 1978 and 1979. The implications are only too obvious. Now, it is for the policy makers to decide for themselves, with such facts to their knowledge, if they would still like to opt for a policy of regularization of excess capacities. Their decision would mainly benefit the Multinational Corporations and Indian Monopoly Houses. Additionally, the regularization would be at the cost of other national policy objectives like (i) protection and promotion of small scale industries, (ii) development of indigeneous technology and enterprise, (iii) avoidance of concentration of industrial production in few private hands, and (iv) reduction of regional disparities.

WORKING PAPER NO. 3

New Industrial Licensing Policy*
- An Empirical Assessment

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Under the new licensing policy, as announced by N.D. Tiwari in Lok Sabha on April 21, 1982, the Government would regularize excess capacities in the scheduled industries established by private sector companies in violation of the IDRA. The new capacities to be treated as the licensed ones, would be on the basis of the highest production level reached during the past five years. The new approved capcities would be nearly 66 per cent more than the production level already reached. The new policy is justified on the plea of productivity. What are the implications of the new policy? How productive would this concession be?

To understand the real implications of the new policy one needs to have an objective overview of the licences issued and the degree of their utilization. Table-I shows the level of production as against the size of licensed capacity for 729 companies which are quoted on stock exchanges in India. The data refers to the companies' financial year, ending 1979. The overall picture shows that out of the 2,948 licences held by these companies, in only 186 (6.3 per cent) licences is the level of poduction higher by more than twenty-five per cent of the capacity licensed. On the other hand, out of the total more than 76 per cent of the licences were being utilized by less than 75 per cent of the capacities licensed. In this framework, if the objective of the new policy is to encourage <u>productivity</u>, where should the action have begun? Should the required policy to be reward those who have been persistently violating the licensing provisions by producing far in excess? Or, should the policy be so evolved as would assist the 76 per cent to utilize the capacities already licensed?

If the objective of productivity improvements was to be achieved, the logical and rational policies would be to enquire as to why the capacity utilization in the private sector was so poor. It is well known that low capacity utilization in the public sector is often taken as an index of the in efficiency of the government sector. Executives of public sector enterprises are pulled up and many are sacked for low capacity utilization, but what is done in the private sector in India is still never discussed openly. If the Government's objective is genuinely to raise production and productivity, the decision required

Table - I

Showing the Distribution of Licensed Capacities According to the Range of Utilisation

S.No.	Percentage Utilisation	Number of Product Licences	Percentage
(1)	(2)	(3)	(4)
1.	0 - 25	1357	46.0
2.	25 - 75	905	30.7
	0 - 75	2262	76.7
3.	75 - 100	329	11.2
4.	100 - 125	171	5.8
	75 - 125	500	17.0
5.	Above 125	186	6.3
	Total	2948	100.0

would be to cut down the licensed capacity to the level of actual production, and in lieu of the cancellations, issue new licences in these areas to those who would implement these in the minimum possible time. Why should there be a ban list or applicants denied licences when the present licence holders were not able to utilize in full the already licensed capacities? By cancelling or reducing the level of licensed capacities in the light of actual production, the Government would be able to end all cases of pre-emption and to reduce the hold of artificial monopolies created and protected by the licensing system. The overall impact of this approach could be the introduction of some rationality in the system.

Apart from knowing the extent of under-utilization, it is equally relevant to ask: who are those licensees who are not utilizing their licences fully? Table - II provides an answer. Out of the 2,262 underutilized licences (each being utilized lower than 75 per cent of the licensed capacity), 619 have a zero level of production. Of these, 110 (17.8 per cent) are held by FERA companies and 229 (37.0 per cent) by companies belonging to Indian Monopoly Houses. Total neglect of utilization of licences is more common with the FERA and Big Business

Table - II

Showing the Licensee categorywise distribution
of Under-utilization Cases

S.NO.	Licensee Category	Range of Utilization (Per Cent)			
		0	Less than 25	25 - 75	Less than 75
(1)	(2)	(3)	(4)	(5)	(6)
1.	Large Houses excluding FCS	229 (37.0)	521 (38.4)	389 (43.0)	910 (40.2)
2.	F. C. C.	110 (17.8)	251 (18.5)	174 (19.2)	425 (18.8)
3.	Others	280 (45.2)	585 (43.1)	342 (37.8)	927 (41.0)
	TOTAL	619 (100.0)	1357 (100.0)	905 (100.0)	2262 (100.0)

companies than with smaller Indian companies. If one group's all the 2,262 licences, which remain substantialy under-utilized, one finds, once again, that nearly 55 per cent of the licences are held by those companies which are either constituents of the FERA or Indian Big Business.

For FERA or Big Business Companies the absence of financial resources or technological capabilities could not have been the reason for their poor performance in implementation of the licences held. At the same time, if the poor performance was due to absence of market demand, the remedial policy framework would have to be wholly different. One would need to identify the reasons as to why larger capacities were licensed than demand estimates. Afterall, creation of industrial capacities does mean utilization of national resources. One suspects, however, that the lower level of industrial production, as compared to that which is licensed in the private sector, is due more to the restrictive and monopoly practices resorted to by the licensees, than to other justifiable reasons.

There could be one valid reason to explain the lower level of production and that is, shortages of power and industrial raw materials. As a general proposition one cannot disagree with the plea of shortages;

particularly with regard to power. But one has to ask a related question: Is it so that companies which were not fully utilizing their industrial licences were unable to do so in case of all the licences held my them? Or, does it happen that the excess and under-utilization phenomena were noticed existing side by side in the same company, during the same period? It may be that for a few products a company produced in excess of licensed capacity, and for many other products it practised gross under-utilization. An objective answer is provided in Table-III. It shows the distribution of 729 Indian companies which hold industrial licences and have production exceeding that licensed, while also holding licences which are not utilized by more than 60 per cent of the authorized capacity.

Table - III

Showing the Distribution of Companies According to the Number of Excess and Under-utilized Licences held by them

Number of licences utilised less than 60 per cent	Number of Licences utilized more than 100 per cent						Total
	0	1	2	3	4	5	
0	114	42	4	2	0	0	162
1	190	24	5	2	1	1	223
2	75	14	3	0	2	2	96
3	43	10	4	4	2	4	67
4	37	4	2	1	1	3	48
5	22	5	1	0	0	3	31
6 and above	50	28	13	7	3	1	102
TOTAL	531	127	32	16	9	14	729

It would be seen that out of 729 companies as many as 531 did not indulge in violation of industrial regulation i.e. none of these having produced more than the licensed capacity. These companies did have under-utilization for the licences held by them. The phenomenon of excess and lower utilization for the licences held by the same company was observed in 198 cases only. Table - III also shows clearly that there were 9 companies which held 5 and more of under-utilized licences, whereas these also had excess production in some of the licences held.

Reaching a level of production which is in excess of licensed capacity, cannot be without diversion of power and other scarce-raw materials from the products in which capacity utilizaion was low. Many of the scarce raw materials are common for a large many industrial products. A company may decide to produce far in excess of the authorization by keeping production of the less profitable items at a lower level. Such practices are bound to result in distortions in supply position -- excess prodction for high priced goods and lower production for goods for which higher prices cannot be charged. At the same time, the company would continue to have a valid license to re-enter the product at a later date. Resort to such practices reduces governmental regulations and attempts at planned development to a farce.

The most significant conclusion emerging from our analysis is that most of the companies which had established capacities for more than six products each were those which happen to be associates of multinationals. This includes, Hindustan Lever, Phillips, Dunlop, Sandoz, Rallis, Siemens, G.K.W., Boehringer Knoll, Glaxo, Union Carbide and G.E.C. The only Indian companies to fall under this category were Tata Oil (Tata), Gwalior Rayon (Birla), Voltas, Travancore Chemicals & Manufacturing Co., Ltd.

The new policy announcement provides that capacities indicated in the earlier industrial licences for such products and those companies which have been producing in excess of the capacities approved, would be of nc significance. The Government would endorse capacities in the light of production level already achieved, the highest during any one of the past five years. The degree of enhanced capacity would be directly related to the extent to which a company had been bold enough violating the Government regulations. Instead of the award of any penalty, the violating companies get a reward. To illustrate: Crompton Greaves (a company of Thapars and having 37.5 per cent foreign equity) held a licence for production of 18,000 sets of metal cased plugs and sockets but its level of production during 1979 was 2,24,207 i.e. nearly eleven-fold excess capacity utilization. As per the new policy Crompton Greaves would get a licence for 2,98,943 units and would indeed be able to produce more than 3.73 lakh units as against the present licence of only 18,000 units. More serious the violation, higher the reward.

Where do the excess capacities exist? For a pointed discussion it would be more relevant to list cases in which the violation of the IDRA has been more serious i.e. the products in which production level reached during 1979 was higher by 100 per cent and more. Table - IV shows the distribution of 62 such cases. It would be seen that 33 out of the 62 cases belong to foreign controlled companies which are well known multinationals of the western capitalist bloc. Indian Big Business and MNcs jointly were responsible for 55 cases out of the total of 62 cases of serious violations. Who would benefit the most from the liberalization policy should be only too obvious. It is only a handful of companies -- but these happen to be important and influential.

Table - IV

Showing the Grouping of Violators of Licensed Capacities

(Number of 100 per cent of more violation cases)

Range of Excess Capacity Utilization as Per cent of Licenced Capacity	Cases belonging to: Foreign controlled companies (MNCs)	Large Houses	Others	Total
100 - 200	19	12	6	37
200 - 300	5	3	0	8
300 - 400	2	2	1	5
400 - 500	2	1	0	3
500 and above	5	4	0	9
TOTAL	33	22	7	62

The new policy also announces the enlaragement of the list of industries under Appendix I to the Industrial Policy Government Decisions of February 2, 1973. This opens up, according to the new policy only five areas for FERA and Indian Big Business (MRTP companies). A more detailed examination reveals that the new areas are not only the five admitted, but the liberalization is far more extensive. Annexure I shows the changes now introduced as against what was contained earlier. There is, probably, much more in the list than

what meets the eye at the first look. For instance, by bringing in the 'components' in the case of newly added items, a good deal of scope has been extended in the areas which should have been reserved for development in the small scale sector.

Further, there is no explanation why the new industries have become core industries. Was this a result of any undisclosed objective enquiry or study, or is the list being enlarged to accommodate different pressure groups? It is equally relevant to ask if such substantial changes had to be made, why this proposal could not be discussed by Parliament or other expert groups, before these industries are elevated to core industries. If nothing else, one should be able to see the core character in the Five Year Plan. why did this question remain untouched in the Planning Commission perspective?

Another aspect of the new policy concessions is that all Lage Houses and multinationals will also be permitted to set up units outside the Appendix I list of the products if the units are predominantly export oriented i.e. 60 per cent export in respect of items not reserved, and 75 per cent for items reserved for the small scale sector. while granting this concession no limit has been placed on the new investments of the multinationals or Indian Big Business. It is obvius that 25 per cent production of a large unit like the Bata, Colgate, Palmolive, Phillips or GEC would be enough to ensure the closure of thousands of small scale units. The MRTP commission had shown how Phillips while exporting indulged in transfer pricing. Now combind with the advantage of local market entry such units would flourish fast and make a mockery of the policy of reservations. In any case, it is well known that in operation, the IDRA is being openly flouted by many of the large, influential and foreign companies. For instance, out of 62 cases of gross violations, 8 happen to be in products which are reserved for the small scale sector. Britannia Industries holds a licence to produce only 3,600 tonnes of biscuits etc., but its actual production during 1979 stood at 34,907 tonnes i.e. excess by 869 per cent. Similarly, in the case of soap, a product reserved for the small scale sector, the Hindustan Lever held a licence for production of 70,108 tonnes, but the actual production was 162,278 tonnes i.e. 131 per cent excess utilization. J.L. Morrison held a licence for production of 31,250 kgs

of medicated toothpaste, but actual production was 67,196 kgs. i.e. excess production by 115 per cent. (See Table V, and Annexure II for a list of all such cases).

Of the 62 cases of gross violations there were 12 cases covering products which are under special regulations. In this list also the most prominent ones are: HMM Ltd. (FERA company) produced 743 tonnes of ghee and butter against the licensed capacity of 255 tonnes. Hindustan Lever, APV Engineering, Glaxo, Bayer were companies (all foreign controlled) which appear to have flouted the regulatory norms of the Government. (See a list in Annexure III. A list of another 42 cases is given in Annexure IV.).

Table – V

Showing Classification of Cases of Gross Violation of Licensed Capacities

(Number of cases with 100 per cent or more violation)

Range of Violation	Items reserved for small scale	Items covered under special regulation	Others	Total
100 - 200	7	7	23	37
200 - 300	-	1	7	8
300 - 400	-	-	5	5
400 - 500	-	1	2	3
500 and above	1	3	5	9
TOTAL	8	12	42	62

While the above are only a few cases of violations which have been reported for many years, this does not take note of the fact that many companies, particularly those belonging to multinationals, do not even hold any valid licences for production of items which are reserved for the small scale sector. For instance, colgate Palmolive in their 1979 Annual Report have reported production of 19 lakh dozens of tooth brushes and shave brushes for which they do not hold any licence. The company, in fact, asserts that it does not require any licence. Similarly, Britannia Industries, a multinational, does not show any licensed capacity but has been engaged in production of more than 40,000

tonnes of bread. Reckitt and Colman (1980 Annual Report) claims that no licensing is applicable to them for production of food products, detergent preparations and polishes and compositions. Bata, in its annual report for 1979 only mentions that applications for endorsement of productive (installed) capacities have been made and they are pending under consideration by the Government of India. A large number of such cases of open and blatant violations could be cited. What has the Government done either by way of punishment for the violating companies or in the interest of protecting the small scale units?

The facts bring out that the new licensing policy would indeed benefit only a small number of companies. The single most important groups would be the foreign controlled companies and a few of the Indian Big Business companies which have shown little regard for economic regulations. Secondly, the extent of the rewards of the liberalization would depend upon the boldness demonstrated during the five years in producing commodities in excess of that authorised. Thirdly, there is virtually no enforcement of reservations for the small scale sectors. There have been violations in the past and these continue without any punitive action. Now there would be an open entry by large companies into areas reserved and once production capacities get built -- under the plea of exports -- the output would be dumped, very conveniently, in the home market. Export obligations, during the past, have proved of no constraint. This was brought out by Tandon Committee as also by many other Government inquiries. On one or the other plea, export obligations are waived.

One may ask: how is this new licensing policy, in any way, conforming to the spirit and letter of the 1956 Industrial Policy Resolution? Will such liberalisation help India achieve self-reliance -- if indeed it is intended to do so? And after all this, what doubts can remain about the conditionality of the IMF loan?

Annexure - I

Showing Additional Items and Elaboration of the Existing Items in 'Appendix - 1'

	Industry	Newly Added Items
1.	Metallurgical Industries	Automotive castings, CSG iron castings, aluminium foils, Sponge Iron and Pelletisation.
2.	Prime Movers (other than Electrical Generators)	Alternate energy systems like solar, wind etc. and equipments thereof, Gas/ Hydro/Steam Turbines from 20 mw. to 60 mw.
3.	Electrical Equipment	Power and distribution transformers, power relays,HT-switchgear,synchronous condensers, industrial furnaces, component wiresformanufatureof lead-in-wires, Hydro/steam/gas generators from 20 mw. to 60 mw.
4.	Transportation	Mechanised sailing vessels up to 10,000 DWT including fishing trawlers, public transport vehicles including, automotive commercial three-wheeler jeep type vehicles, industrial locomotives, Personal transport vehicles: (i) passenger cars; (ii) automotive two-wheelers and threewheeler. Regarding two-wheelers, only expansion of existing units,subjectto an export obligationof 25per cent on additional capacity; Specialised automotive components, such as pistons and piston rings, fuel injection equipment, auto-electricals, such as starter motors, generators, spark plugs, rear axle assembly, brake and clutch assembly, tyre/tube valves, wheels for automobiles and bimetal bearings.
5.	IndustrialMachinery	Specialised equipment forindustrial machinery:(1) High performance and high fidelity industrial valves as may be specified by the Ministry of Industry; (2) Centralised LubricationSystems; (3) Gears, gear boxes and couplings; (4)Rollsfor paper mills, rolls for

Industry	Newly Added Items
	rolling mills; (5) Pollution control equipment;(6)Process equipment for utilisation of recycling of wastes.
6. Machine Tools	Controls and accessories for machine tools, cross land tooling, engineering production aids such as cutting and forming tools, patterns and dies and mining tools.
7. Earth Moving Machinery	Construction machinery and components thereof.
8. Industrial Instruments	Electromedical Instruments and laboraory equipment.
9. Chemicals	Petro-chemicals: (1) Catalysts and Catalyst supports; (2) Photographic chemicals; (3) Rubber chemicals; (4) Polyols; (5) Isochyanates, Urethanes, etc.; (6) Speciality chemicals for enhanced oil recovery; (7) Heating fluids; (8) coal tar distillation and products therefrom; (9) Tonnage plants for the manufacture of industrial games; (10) High altitude breathing oxygen/ medical oxygen; (11) Nitrous oxide; (12) Refrigerant gases like liquid nitrogen, carbon dioxide etc. in large volumes; (13) Argon and other rare gases; (14) Alkai/acid resisting cement compound; (15) Leather chemical and auxiliaries.
10. Paper and Pulp including Paper Products	Industrial laminates
11. Automobile Tyres and Tubes	Automobile tyre tube valves, rubberised heavy duty industrial beltings of all types, rubberished conveyor beltings, rubber reinforced and lined fire fighting hose pipes.
12. Plate Glass	Float glass, toughened glass insulators, glass fishres of all types.
13. Ceramics	Ceramic fibres.
14. Cement Products	Gypsum boards, wall boards and the like; high technology reproduction and multiplication equipment.

Industry	Newly Added Items
15. Printing machinery	(1) Web-Feb high speed offset rotary printing machines having output of 30,000 or more impressions per hour; (2) Photo composing/type setting machines; (3) Multi-colour sheet-fed offset printing machines of sizes 18" x 25" and above; (4) High Speed Rotogravura printing machines having output of 30,000 or more impressions per hour.
16. Carbon and carbon	(1) Graphite electrodes and anodes; (2) products Impressive graphite blocks and sheets.
17.	Pretensioned high pressure RCC Pipes.
18.	Rubber machinery.

ANNEXURE - II

Showing the list of Big Business and Foreign Controlled Companies producing items reserved for Small Scale

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
1.	Kesoram Inds & Cotton Mills	Sodium Sulphide	Tonnes	79	140	100.0	Birla
2.	Tata Oil Mills	Soaps	"	40787	95045	133.0	Tata
3.	Cudh Sugar Mills	Soaps	"	1800	4955	175.3	Birla
4.	Guest Keen Williams	Safety Pins	000 Nos.	224640	538052	139.5	FCC/GKW
5.	Hindustan Lever	Soaps	Tonnes	70108	162278	131.5	FCC/Hind Lever
6.	JL Morrison	Medicated Toothpaste	Kgs.	31250	67196	115.0	FCC
7.	Britannia Inds.	Biscuit & High Pro-tien Food	Tonnes	3600	34907	896.6	FCC
8.	Barium Chemicals	Barium Carbonate	"	600	1323	121.0	Others

ANNEXURE - III

List of Products Produced by Big Business and Foreign Controlled Companies covered by Special Regulations

S. No.	Name of the company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
1.	Pfizer	Protein Hydrolysate	Tonnes	110	289.5	163.2	FCC
2.	APV Engineering	Fruit Juice De-aereators Pasteurisers	Nos.	3	8	166.7	FCC
3.	Glaxo Labs.	Foods	Tonnes	4120	8673	110.5	FCC
4.	HMM	Ghee & Butter	"	255	743	191.4	FCC
5.	Hindustan Lever	Milk Powders incl. Baby Food	"	874	1967	125.1	FCC/Hind Lever
6.	Hindustan Lever	Processed Triglyce-rids/Hydrogen-ated oils/ Vanaspati	"	44624	101347	127.1	"
..	Glaxo Labs.	Solids & Powders incl. Ointments & Malt	"	184	654	255.4	FCC

S. No.	Name of the company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
8.	Bayer (I)	Pesticides/ Powders	"	1882	28139	1395.2	FCC
9.	Bayer (I)	Tablets/ Capsules	000 Nos.	48150	283552	488.9	FCC
10.	New Swadeshi Sugar	Spirit	Litres	22700	2413518	10532.2	Birla
11.	Oudh Sugar Mills	Spirit	Kls.	11500	92980	707.1	Birla
12.	Brindavan Alloys	Rolled Products	Tonnes	5000	10209	104.2	Others

ANNEXURE - IV

Showing the list of Big Business and Foreign Controlled Companies Having Excess Capacities in Other Products

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
1.	Assam Carbon Products	Electrolytic Copper and LF Powder	Kgs.	30000.0	64396.0	114.7	FCC
2.	Siemens (I)	Rectifier Cubicles & Misc. Equips.	Nos.	64.5	140.0	115.5	FCC/Khatau
3.	Bharat Alums & Chmls.	Oleum	MT	3600.0	7790.0	116.4	Others
4.	Simco Meters	MDI Meters	000 NOs.	10.01	22.0	120.0	Seshasayee
5.	Wood Polymers	Plastic Laminates: Decorative & Indl.	Tonnes	980.0	2157.7	120.2	Others
6.	AFV Engg. Co.	Milk Receiving & Storage Tanks	Nos.	12	27	125.0	FCC
7.	Best & Crompton	Transformer Connections	Metres	500	1181	136.2	FCC
8.	Bayer (I)	Pharmaceuticals: Basic Production	Kgs.	24730	58507	136.6	FCC
9.	Uniloids	Metronidazole	Tonnes	10.0	24.1	140.8	Others

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
10.	Loehinger-Knoll	Liquids for External use	Kgs.	2600	6713	185.2	FCC/Kallis
11.	Cynamid (I)	Antibiotics: Tetracycline	M.T.	10	26.7	167.0	FCC/Lalbhai
12.	Larsen & Toubro	Press Tools, Jigs, Moulds etc.	Lakh Rs.	100	268	168.0	L & T
13.	Glaxo Labs.	Tablets & Capsules	Mn.	576	1585	175.3	FCC
14.	Mohan Meakins	Glass Bottles	Tonnes	7500	20727	176.4	Moha Meakin
15.	Kirloska Bros.	Hermatically sealed compressor units	Nos.	16600	38582	132.4	Kirloskar
16.	Glaxo Labs.	Liquids, orals, Parenterals	Kls.	1207	2810	132.8	FCC
17.	-do-	Chemicals	Tonnes	491	1150	134.2	FCC
18.	Sandoz (I)	Formulation: Tablets	Mn. Nos.	189	525	177.8	FCC
19.	Elecon Engg.	Specialised Conveying Equip., Stacker	M.T.	500	1402	180.4	Elecon

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
20.	Dhrangendhra Chem.	Ammonium Bicarbonate	"	1300	3707	185.2	S.P.Jain
21.	Electric Const. & Equipment Co.	Poly Phase Meters	Nos.	54000	157704	192.6	Birla
22.	Indian Plastics	Urea & Melamine Formaldehyde Moulding Powder.	M.T.	200	599	199.5	Birla
23.	Sandoz (I)	Capsules	Mn. Nos.	22	69	213.6	FCC
24.	Searle (I)	Injections	No. of Ampules	50000	160815	221.6	FCC/Rallis
25.	Electric Constn. & Equipment Co.	Single Phase Meters	Nos.	180000	623105	246.2	Birla
26.	HindustanLever	Synthetic Detergents	Tonnes	18666	67815	263.3	FCC/ Hindustan Lever
27.	Premier Cable Co.	PVC Cables	Kms.	1824	9745	334.3	Others
28.	May & Baker (I) Ltd.	Tablets	Millions	148	829	360.1	FCC
29.	Caprihans (I) Ltd.	Phenol Resin Varnishes	M.T.	180	1029	471.7	DU

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
30.	Caprihans (I) Ltd.	Melamine Formaldehyde Resins	M.T.	60	453	655.0	DU
31.	Mettur Chemicals and Indl. Corpn. Ltd.	Bromine	Tonnes	360	4192	1064.4	Seshasayee
32.	Crompton Greaves Ltd.	Metal cased Plugs and Sockets	Sets	18000	224207	1145.6	FCC/Thaper
33.	May & Baker (I) Ltd.	Injectables	Kls.	17	260	1429.4	FCC
34.	May & Baker (I) Ltd.	Liquids	Kls.	88	1510	1615.9	FCC
35.	Gwalior Rayon	Viscose Staple Fibre	M.T.	22000	84013	281.9	Birla
36.	Pfizer Ltd.	Oxytetra-cycline/Tetra-cycline and its Formulations	Tonnes	14	53.96	285.4	FCC
37.	Voltas Ltd.	Spares for Forklift/ Handlift/ Pallet Trucks	Rs. Lakhs	5.00	20.18	303.6	Tata
38.	Metal Box (I) Ltd.	R.S. Closures	'000 Nos.	84000	342269	307.5	FCC/Metal Box

S. No.	Name of the Company	Product	Unit	Licensed Capacity	Actual Production	Percentage of Excess Capacity Utilization	House Associations
39.	Shriram Refrigeration Company	Water Coolers	Nos.	800	3262	307.8	Shri Ram
40.	Sandoz (I) Ltd.	Liquid	Kls.	263	1340	409.5	FCC
41.	Caprihans (I) Ltd.	Rigid & Flexible PVC Sheets	M.T.	1320	4631	250.8	D.U.
42.	Travancore Chemicals & Mfgs. Co. Ltd.	Copper Oxychloride 50% WDP	Tonnes	300	749	149.7	Others

FCC denotes a Foreign Controlled Company.

WORKING PAPER NO. 4

RELEVANCE OF SOCIAL SCIENCE RESEARCH IN INDIA: INDUSTRIAL DEVELOPMENT

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Government and Industrial Development

1. Governmental interventions and policies play an important part in determining the pattern and rate of industrial development in less developed economies; this, however, is more true in countries like India which have opted for planned economic development. In addition to determining the size of plan outlay and financial sectoral allocations each plan indicates industry targets and specific programmes to be implemented during the period. Fiscal and monetary policies are directed to provide selective support and discouragement to industrial operations within the overall framework of plans. Governmental interventions, generally speaking, take three forms, namely, (i) **Direct participation** (public sector investments and nationalization); (ii) **Regulation** (licensing, price control and other restrictions); and (iii) **Promotion** (provision of infrastructural facilities, economic incentives, administrative priorities, and so on). Formal authority for government action is backed by appropriate legislation. Some of the important enactments, having a direct bearing on Indian industrial development, are: **Capital Issues (Control) Act 1947; Industries (Development and Regulation) Act 1951; Essential Commodities Act 1955; Companies Act, 1956; Monopolies and Restrictive Trade Practices Act 1969; and Foreign Exchange Regulation Act 1973.**

Regulation of Industry

2. Framework of Indian industrial policy, as reflected in the Industrial Policy Resolutions of 1948 and 1956, is the one outlined in the pre-Independence Industrial Policy Statement of 1945. In fact, it was in pursuance of the 1945 statement that most of the Indian enactments were proposed and adopted.[1] While some of the enactments have been revised many others continue to be the same. Secondly, it needs to be underlined that most of the regulatory legislation in India is modelled on the British enactments.[2] There has, of course, been a time gap between the year when British adopted the legislation and India went for it.[3] The place and significance of

regulations in a planned economy has, for obvious reasons, to be different than that of an industrially developed nation and believing in superiority of market mechanism system for optimal allocation of her resources. However, India, which has sought to pursue planned path of development for establishment of a socialistic pattern of society, in matters of legislation, followed the British. To provide the legislation with the necessary °teeth' heavy reliance has been placed on executive action and administrative discretion. A conspicuous feature of the Indian policies and legislations is the built-in mechanism which allows abundance of powers to government system to allow exemptions to general rules, under the vaguest possible provision 'whenever public interest so demands'. Since the exercise of power, in public interest, has to rest with the administrative set up in power, it leaves unlimited scope to discretion and **adhocism** (and therefore convenience) in implementation of various public policies and programmes.

Direct Participation by State

3. The need for direct state participation in the Indian economic system has been recognized on many counts.[4] Accroding to the Industrial Policy Statement of 1945, state had to take direct responsibility in defence and basic industries, public utilities, railways and transport, power generation, irrigation and the provision of industrial infrastructures. The Industrial Policy Resolutions of 1948 and 1956 restated the same approach with some difference of emphasis and elaboration. Since Independence some of the Indian commercial banks, life and general insurance business, airlines, power, coal and certain other industrial activities have been brought under direct ownership and state control. The precise rationale for takeovers has varied with time and the nature of economic activity being brought under direct state control. The degree of direct state participation in the economy, however, has risen mainly as a result of the plan investments, particularly, in basic industries. Fast growth in the size and nature of public sector activities is bound to have impact on the overall process of industrial development as also on the private sector industrial developments. Public sector in India according to the Second Five Year Plan, should achieve commanding heights in the economy. The precise objectives of achieving the heights were never explicitly

stated. Financial performance of Indian/public sector units is assessed yearly and the size of loss and profit of public enterprises is discussed widely. The role of public sector in the process of Indian economic development and for whose benefit has the public sector been performing, are rarely discussed even at the top policy making levels. Vagueness on criteria for assessing performance of public sector still continues.

Promotional Institutions

4. The number of specialized public sector promotional institutions ser up during the past 30 years is quite large. These have come to occupy a strategic place in the private corporate sector. National level bodies like the Industrial Development Bank of India, Industrial Finance Corporation, Unit Trust of India, Industrial Credit and Investment Corporation of India assist large units. The State financial and industrial development corporations were consituted to assist small and medium size enterprises. Additionally, specialized Funds were established to extend cheap and easy funds to encourage shipping, hotel and certain other industries. If one takes all public sector financial institutions together, it would be seen that these are the most important share-holders of the organized industrial sector. Of late, the financial institutions have started promoting joint industrial projects in collaboration with private industrialists.

5. In short, government policies, programmes and public sector institutions have an important place in the process of industrialization in India. If there are negative instruments for government action (industrial licensing and other restrictions) the system also has a variety of promotional policies, programmes and institutions. The government has taken upon itself the primary responsibility to develop basic and strategic industries in order to ensure balanced and sustained process of industrialization. One could, in this framework, discuss the question of making social science research more relevant to the process of industrial development by conducting operationally significant policy oriented studies. May it be in the area of regulation, promotion of direct participation.

Section - II

6. To undertake meaningful research studies and be of relevance to policy issues and policy makers, social scientists have to have: (i) willingness to participate; (ii) availability of requisite research funding; (iii) access to the relevant data, and (iv) an institutional framework for communication and inter-action. Fortunately, Indian researchers do not appear to have much difficulty in the area of communications. In India research studies can be easily published and the findings, particularly in the area of industrial development, do attract quick attention of the government, legislators, political parties and civil services. However, the communication system seems to operate in one direction. Regular forums for interaction between researchers, political personalities and civil servants are nearly absent. Each group seems to inspire little confidence of the others. To group seems to inspire little confidence of the others. of social scientists, politicians' interest is in populist policies; and politicians consider social scientists as ivory tower personalities. In this framework, each group has become irrelevant to the other. The need for regular dialogue cannot be overstated. However, the major problems of social science research in industry are mainly in the first three areas.

Dilemma for Social Scientists

7. A problem peculiar to research in the field of industry is that unlike agriculture, constituents of the universe of investigation are, comparatively speaking, organized, vocal, educated, resourceful and influential in public life. For instance, a social scientist could safely bring out the question of domination of landlords and instances of exploitation of landless labourers in the country as a whole or in one area; the researcher would have to never face direct questions from landlords. If one was to publish research results which showed a section of industrialists in adverse light, the researcher would very soon be faced with public criticism -- some legitimate but most of it inspired, ill-informed and some time even abusive in character.

However, if a researcher in the broad area of industry confines himself to model building and remains contented with 'carpentry', he would remain undisturbed, and incidentally, mostly irrelevant too. Any research output that could be suspected to have potential of influencing industrial policies, (and could adversely effect economic interests of those who happen to be now the beneficiaries) would undoubtedly attract quick and adverse commentry from industrialists and their organized associations. Social Science Research in industry is politically sensitive. As a result, scientific objectivity of the academics in the area can be easily questioned. One is, therefore, not very sure if many social scientists would indeed like to participate in an area which can drag them into public controversies -- with likely consequences on future career and employment opportunities. Also, policy oriented research may not appear to be academically very rewarding to many in the face of a choice for theoretical and quantitative research which can be publishd in internationally recognised and prestigious academic journals. The problem acquires a new dimension if the researcher happened to be employed in an organization that would like to avoid controversies or maintain the so-called neutrality in their work.

Funding Sources

8. In India, as also in most other developing countries, main sources for research funding are : (i) governments (through departments, universities and national research councils); (ii) Private Foundations (mainly originating from advanced countries); and (iii) Inter-governmental bodies. In India during the early stages of planning, a large part of the social science research was funded by Ford Foundation and similar other foreign agencies. This strongly influenced promotion of research on certain lines. For instance, research funds were made available for establishment of research institutions and award of research fellowships in the broad area of agricultural, rural and extension research. Agricultural and rural development was also the priority area for Indian planning. In that setting financial resources posed no constraint for initiation of research in agriculture and rural areas. Most of the young and bright scholars were sucked into this system. The general pattern of initial research thrust was bound to generate a large number of social scientists in the area of community

development, rural extension, farm management, and agricultural economics. This has led to a vicious circle; more funds for research in one sector, more institutions and scholars in the area; and in-turn, more demand for research jobs in the area. Just the opposite of it is true of social science research in industry. A reflection of this phenomenon can be found in the subject-wise pattern of research grants made by the Indian Council of Social Science Research during the period of 1969-76. Out of the 600 research projects approved during the period, the number of research projects in the area of industrial policy can indeed be counted on finger tips.[5] The low priority assigned to social science research in the industrial area is also reflectd in the number of academic positions held by scholars in the area at universities, national and regional research institutions as also within government. The question of research funding can also be seen in terms of the attitude of research output consumers which in this case, happen to be government and political parties and public bodies.

Data: The Problem of Secrecy

9. The third constraint, inhibiting research in the field of industries, particularly the policy oriented research, lies in the fact that the major agencies collecting data on industrial sector are under government control. Collection of primary data from individual industrial units is ridden with a variety of problems. Industrial units, invariably, attract provisions of income tax, excise duties, labour laws and other government regulations. Avoidance and evasion of regulations offers opportunities for economic advantage to the entrepreneurs. Therefore, industrial enterprises in the private sector are hesitant to share information and data on their economic operations. Even if industrial units agree to cooperate, information and data is supplied only after a good deal of 'widow dressing'. One could safely generalise that more important an industrial unit higher would be the degree of resistance to cooperate. It has been possible to collect data on a number of operational aspects with regard to small and unregistered industrial undertakings but cooperation from the organized sector to individual researchers is a near impossibility. In fact, it is not a problem peculiar to individual researchers; similar has been the

experience of government departments, inquiry commissions and committees.[6] There are two sets of problems. **One**, industrial units do not wish to subject themselves to outside scrutiny. This could expose them to public gaze. Two, the fact also remains that many of the large industrial units do not have professional managements. A good many internal records are adjust not maintained. Probably, it is also the suspicion of attracting punitive action that private industrialists have always stood for utmost secrecy of their internal records. It may be mentioned that, under the Collection of Statistics Act, even the Surveys data can not be fully shared by all government departments. A telling example of the secrecy element on Indian industrial data is provided by the Monopolies Inquiry Report. It observes :

> Another Department of Government whose primary function is the collection of statistics of production of various commodities is the Central statistical Organization. We had hoped that these would be of much assistance to us. Unfortunately, our efforts to obtain the statistics maintained by the Central Statistical Organization were unsuccessful... Department authorities pointed out certain legal difficulties in the way of the information being made available to us... the ultimate position taken by the Department -- apparently on legal advice -- was that if asked to supply the statistics in question it would claim privilege.[7]

Organized Sector but Un-organized Data

10. **Secondly**, the organized sector enjoys a dominant position in the Indian industrial sector. While the country is undoutedly large, the number of important industrial units would e less than 10,000 in whole of the country.[8] It also so happens that, because of various administrative and regulatory provisions each industrial unit has to file periodic returns to government. These contain wide variety and crucial data which could be very profitably analysed by social scientists. However, the periodic reports remain 'on files' and none would look into these since there exists no system of scrutiny or compilation of the data so obtained. Government departments are happy that the industrialists have observed the administrative norms. In the absence of a proper monitoring system, all policy deviations remain unetcted both at the industry and unit levels. It is only on receipt of occasional letters, exposures in press and complaints from legislators that attempts are made to verify facts to initiate government action. The limited point in inderlining the present situation is that even for

the data which is not to be treated as secret there is **de facto** secrecy for researchers. Information on organized industrial sector in India is probably more disorganized than the vast unorganized sectors of the Indian economy.[9] Thirdly, even when data on industrial and corporate sector is organized and compiled from records, which are individually available for public scrutiny, government departments are extremely reluctant to share such information with social scientists.[10] Hesitation on part of government departments lies in the fact that research studies based on the compilations could invite public controversies. Civil servants, for obvious reasons, have to avoid such possibilities.

Data Generated and Reports of the Commissions

11. **Fourthly**, it neds to be mentioned that a large body of data on industrial sector gets generated during investigations and working of inquiry commissions and committees. As the data collected by **ad hoc** bodies is meant for their own analysis, the commission/committee reports present only the final tables. Basic data collected by inquiry committees is not available to researchers for further analysis. It gets buried under the weight of official secrecy. It is also relevant to mention that a large many inquiry committee and commission reports do not even get published. For instance, a good number of reports have been submitted (and these are supposed to be public) by the MRTP commission; but not even a single one of these has been so far published by government. The Income Tax Investigation Commission, similarly, submitted its report (1948) along with evidence contained in the form of Appendices. While the main report was published the annexures were not. The cases of non-publication are many.

12. In brief, if social scientists have to be relevant to public policies in the area of industrial development, there has to be easy access to objective data on industry and various facets of regulatory administration. Industrialists, government departments, and civil servants (each with its own reasons) have resistance to sharing of information and data. In the absence of empirical base, it is obvious that social scientists in the area will have to remain confined to

theoretical propositions and limited analysis, most of which may not evince much interest or inspire confidence of the policy makers in the social scientist's capacity to be relevant to important processes of industrialization in India.

Section - III

13. Given the importance of government policies and programmes in determining the nature and rate of industrialization one may ask: In what manner can social science research hope to contribute, and thereby become relevant to the processes of Indian industrial development? Broadly speaking, social scientists could attempt to :

(1) Provide overall industrial perspectives and motivation for policy amendments and adoption of new ones;

(2) Examine validity of assumptions, stated or implied, in the policy statements and legislations;

(3) Assess impact of governmental policies and programmes in terms of the envisaged objectives;

(4) Identify factors responsible for policy distortions; and

(5) Help evolve policy alternatives.

Need for Directory on Data Sources

14. The importance of having access to requisits data for research has been mentioned earlier. The reasons for resistance to sharing of information on the part of civil servants as well as idustrialists has also been underlind. having stated the problems at length, objectivity demands that one should also attempt to indicate the type of data which is available and the fact that Indian scholars have not made adequate attempts to explore and analyse the same. While researchers anywhere in the world would like to have ideal conditions of work and easy access to all types of data, it needs to be said that India is perhaps the only country in the world where on some of the important policy aspects, data is available for use by independent researchers. The sources are public but the compilations are invariably secret. To be specific, all large establishments of the Indian organized sector (except for a very small number) publish their Annual Reports and Balance Sheets, (as these are public limited companis) a copy each of these can be very often obtained directly from the undertakings. In any case, the Library of Balance Sheets at the Research and Statistics Department of the Ministry of Law, Justice and Company Affairs (New Delhi) can be consulted for collection of data by all bonafide rsearchers. Nearly similar facilities are

available at Bombay (the Bombay Stock Exchange Foundation and the Reserve Bank of India). **Secondly,** researchers can collect a variety of information on public limited companies from the offices of the Registrar of Companies. For this, of course, one has to personally visit the concerned regional office. **Thirdly,** information on licenses issued, collaborations approved, capital goods imports allowed, permissions granted for fresh capital issue is regularly being made public by government. Some of the economic periodicals have regular features to publish such lists. And **fourthly,** a good deal of industry-wise data is available from government bodies like Tariff commission, MRTP commission, Bureau of Industrial Costs and Prices, Planning Commision, and Industry and trade associations. With regard to public sector industrial units, a fund of information is supplied to Parliament and State legislators which can also be fruitfully compiled and analysed.[11] The variety of data available and public sources are so many that the promotion of research in the area there is need to compile a comprehensive **Directory on Sources of Data and Information on the Indian Organized Industrial Sector.**[12]

Information System for Research

15. Experience shows that with persistent effort, even at individual level, researchers can collect good deal of research data for large areas of meaningful policy research. For sustained and organized research work the real need appears to be in the establishment of a few specialized centres for research on industry. It is not beyond the real of reality to install a computer based information system on Indian industry in few places in India. If such proposals were to be accepted one would sugest that the task of maintaining data should be undertaken at an academic research institution though this would necessarily imply active cooperation of the Planning Commission and other concerned government departments.

National and International Perspectives

16. During the past three decades India has undoubtedly witnessed considerable development in the industrial sector. It is, for various policy issues, necessry to inquire if the pattern of industrial development has indeed been on the lines envisaged initially? for

instance, did India really plan for large 'capital goods sector' to service exports directly?[13] Why has the capacity, particularly in some of the basic and heavy industry sectors, remained grossly under-utilized? Indian economy is not isolated from the world economic system, over which India has little influence and control. From this viewpoint, it is necessary to enquire in detail, about the major factors which had significant effect on the India industrial development. What is our own understanding of the trends in industry in the world in general and the neighbouring countries and India's major trade-partners, in particular. Supposing, there was to be more regional and South-South economic cooperation during the next decade. What would be India's proceed ? A variety of sub-questions need to be attempted for answer. One would, however, agree that while the international context cannot be ignored, it should not be allowed to become an obsession either.

Process of Industrial Planning

17. Second set of questions is in the area of industrial planning. Our knowledge, as to how are the industrial targets fized; with what assumptions; the techniques employed; and why does it happen that each plan has witnessed excess production in certain areas and extremely poor performance in certain others ? What goes into the exercises of revision ? Is there any pattern ? The main emphasis in Indian planning has been on industrial capacities. On the basis of experience can one say that it is a valid concept ? On what lines should the monitoring of the industrial sector be attempted and for what purpose ? India has pursued vigorously an import-substitution policy for many years. Has it really delivered the results from the viewpoint of economic planning? Does the policy need to be revised and on what precise lines? Public sector was expected to acquire the commanding heights; Has it? And if not, why not?

Policy Assumptions: Small Scale Sector

18. Public policies and legislative enactments are always based on certain basic assumptions. For instance, small scale industry has continued to get favoured treatment ffrom the Central and State governments under a variety of assumption like : these are less capital

intensive; are owned by small entrepreneurs; and have relevance to the use of local resources and needs of the common-man. the sole criterion for classification of the small scale units has been the size of 'assets'. Is this an adequate concept ? How relevant is the small sector concept when it does not take note of the raw material sources, the markets for which it produces, the nature of products it manufactures, the nature of managerial control and linkages with other undertakings, professional competence of the owner, the relative significance of the unit in terms of product and the size of turn-over ? Does one need to have a fresh look at the very relevance of small scale sector in the present Indian context and level of economic development ?

Public Sector

19. With regard to public sector a general belief, in many policy making circles, has been that expansion of the sector implies widening hold of state on the nations means of production. this development is seen as a progressive (one may call it, appropriate, radical, socialist or socialistic) step. The implied assumption has been that since private ownership of means of production lies at the root of exploitation in a society, expanding public sector hold over country's productive capial would help reduce the level of economic exploitation in the country. It is in this Marxian framework that public sector in India has been sen as a scared cow in many circles. Does not this formulation ignore a basic reality that while surplus value is undoubtedly generated during the process of production, with employment of the means of production, the surplus is realized only when it is exchange ? If state expands its hold over all productive capital but leaves marketing and trade in private hands, would there be no scop for private exploitation ? Alternatively, if the entire exchange was to be socialized, would industrialists be able to have surpluses, establish market monopolies orseek product differentiation through advertisements, brand names and patents ? In India, very little work on industry-trade linkages and intermediary margins of the private industrialists has been attempted. social scientists could make an objective analysis of all aasumptions under which public sector has been supported in the process of Indian economic development in general and industries, in particular.

TNCs

20. Indian policy towards foreign private capital was based on the assumption that foreign investors would complement the limited investmiable resources of the country. Therefore, a variety of concessions were offered to attract foreign private capital. It was also assumsed that foreign enterprises would provide to the economy an easy access to the latest technology. How far have these expectations proved valid ? Under the **Foreign Exchange Regulation Act**, 1973, it has been assumed that to have beter control over foreign enterprises these should be made to unload majority character in equity ownership. does one have a better control over foreign controlled companies than the ones which were foreign owned but nationally controlled ? A good number of studies can be undertaken to asess the role of foreign private capital on Indian economic development. Is it not unfortunate that with such large number of experiencedd and competent economists even today one has no objective assessment of the degree of direct and indirect control on different industrial areas of India? It is somewhat surprizing, thought it only reflects the absence of much contriution by Indian social scientists, that while there is world-wide consciousness of the potential dangers from the operations of the institution of transnational corporations, particlarly to undeveloped countries, persons in very high public positions in India see a great merit if TNCs were invited 'look, stock and barrel'. What economic price is India paying for hosting direct private investments from abroad ? What would be the long term imlications of pleading for Indian TNCs to establish units in countries which are comparatively less developed than India? What are the comparative costs of obtaining technology from different sources and through different organizational modes ? Indian policy of allowing technical and financial tie-ups with foreign undertakings has been continued over long period. It should be possible to assess the contribution of TNCs in technology development and transfers.

Industrial Regulation

21. In the area of industrial regulation it is possible to empirically assess the impact of various legislations individually and collectively. The Dutt Committee made an analysis of industrial licensing for the period of 1956-66. The coverage was no doubt large. However, social

scientists could pursue limited aspects of licensing -- impact of licensing on import substitution, regional imbalances, employment generation or small scale industries. The need for research work in the area of monopoly control and restrictive trade practices is widely recognized in capitalist and industrially advanced countries. In India, the need is much greater. Indian scholars could undertake studies on the experience of other countries in industrial regulation. This could help to improve our own performance. The degree of success at regulation of prices of essential commodities and the role played by Tariff commission and other bodies needs to be assessed continuously.

Promotional Institutions

22. Banking and institutional finance are very closely related to industrial operations. The number of promotional institutions established to promote industries in the private, joint and cooperative sector during the past three decades is well known. What were the initial objectives for setting up these institutions ? How far these institutions have promoted the charters assigned to them ? While a number of quantitative studies are available, policy studies in this area appear to have been very few.

23. Summing up, if one assumes that governmental interventions have a direct and significant impact on the process of industrial development, it appears necessary to undertake a large number of research studies in the area of industrial regulation and promotion apart from relating to the Indian scene to the international and regional setting. In this area very limited work has been taken up for various reasons. Undoubtedly, there are special problems which have to be faced by social scientists intending to study this area. There are rewards too. There is need to initiate more of policy oriented research in India. for this, certain initial steps have to be undertaken -- like promotion of centres for studies on industrial development and regulations. The need for establishing an extensive information and data system, preferably computer based and located at one of the autonomous research institution cannot be over-emphasized. If researchers undertake policy studies in this area, one feels that social scientists can become very relevant in evolving of policy alternatives and thereby become relevant very socially.

NOTES

1. Industrial Policy Statement (1945) proposed the enactment of Capital Issue (Control) Act, Industries (Development and Regulaion) Act, and legislation for standardisation, import control, promotion of R & D as also takeover of private undertakings in public interest.

2. For a review, see: INDIA: Company Law Committee: Report, (1952), Chapter III on "Growth and Development of Comapany Law in India".

3. For instance, MRTP Act 1969 is based on similar British Act of 1948. The same has been the case in matter of banning company donations to political parties and Patents Bill. See: Goyal, S.K. "Industrial Regulation", ICSSR, A Survey of Research in Public Administration, Vol. II, Allied Publishers, 1975, pp. 441-471.

4. Historically, the plea for wide state participation in the Indian economy was made by the National Planning Committee, the Industrialists' and Peoples' Plans. The Industrial Policy Statement of 1945 made it out that post-war situation demanded active state role, the Economic Programme committee, however, proposed that all large industrial units having potential to become private monopolies should be taken over by government. the Industrial Policy Resolution of 1948 postponed the decision on nationalization of privately owned large industrial units in basic industries. The revised policy resolution of 1956, however, was conspicuously silent on the question of nationalization.

5. See: ICSSR Research Projects: 1969-76, Publication no.97, 1976.

6. Whenever the respondents did not have full confidence in government inquiries, they have obtained 'stay orders' and, if nothing else, have successfully defeated the very purpose of many public inquiries. The Income Tax Inquiry Commission and the sarkar Commission are cases in point.

7. INDIA, Monopolies Inquiry Commission: Report, 1965, p.12.

8. This would be inclusive of all units with more than Rs.5.0 lakhs as turnover. Out of these nearly 1500 are quoted on the stock exchange and would account for nearly 80 per cent of the industrial assets of the corporate sector. The top 358 quoted undertakings, each with Rs.10.0 crore and more turnover, account for nearly 85 per cent of the overall turnover of the stock exchange qoted companies.

9. See Chapter III, "Corporate Sector: Absence of Data and Information", Monopoly capital and Public Policy, by the present author.

10. For instance, no government department would share a list of foreign collaborations, approved during the year. It is treated as secret. However, the individual agreements are available as part of the documents which are open for public inspection at the time of new capital issues.

11. Very useful data is supplied to Parliament during the Question Hour.

12. A small beginning in this respect is being made at the IIPA.

13. A similar question needs to be posed with regard to engineers, medical doctors and other professionals who have been encouraged to take jobs outside India.

WORKING PAPER NO. 5

THE NEW INTERNATIONAL ECONOMIC ORDER AND TRANSNATIONAL CORPORATIONS*

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The Declaration and Programme of Action for establishment of the New International Economic Order, as adopted by UN General Assembly in May 1974 suggests that developed countries should (i) respond favourably to the requests of developing countries for financing of industrial projects, and (ii) encourage investors to finance industrial production projects in developing countries. At the UNCTAD-I held at Geneva in 1964, the developed countries had in fact committed themselves to provide one per cent of their GNP as developmental aid. Later the Pearson Commission and the Brandt Commission also argued for large capital transfers to the poor nations. In response to the pressures and demands at various international fora the developed countries have generally argued that while it was not possible to set aside the desirable levels of governmental aid -- in view of internal demands on budgetary resources -- there was large scope for transfer of capital through direct private investments. Therefore, the view has been that developing countries should provide adequate incentives, security and opportunities to attract foreign private investments. It is also argued that there was a need to get rid of a variety of imaginary fears and ideological stances taken by some of the under-developed countries on the question of Transnational Corporations(TNCs). It is, however, agreed that there should be a voluntary code of conduct and host governments should regulate TNC activities in the overall framework of their national development plans.

The above framework is based upon the basic assumption that the present level of underdevelopment and poverty in the developing countries was a direct consequence of the 'capital scarcity'. Secondly, the most important development issue for the developing countries was the size of investment and not the structure or pattern of investments. This assumption seems to be of a very questionable nature. It can be demonstrated that the main causes of continuing injustice, inequality and poverty in the developing countries are not the scarcity of physical and financial capital. These lie somewhere else, namely, in the existence of irrational, illogical and unproductive social, economic, political and administrative structures on the one hand and the

inadequate and inconsistent efforts at planned development to effectively protect and promote their national self interest. The issues of development in the poor countries have to be solved basically by the poor nations themselves through establishment and strengthening of a new internal order. The role of external factors (aid, trade and investments) is much lesser than many a time assumed. This, however, does not mean that with appropriate assistance the internal processes of development cannot benefit from the outside world. Infact, it can be shown that emergence of internally stable, enlightened and consistent governments in the poor economies can alone pursue genuine developmental policies and provide the building blocs for realisation of the New International Economic Order wherein the poor nations would be able to take advantage of the modern technologies for liquidation of human misery and poverty. We discuss this with reference to the Transnational Corporations and Governments of the developing nations.

II

Transnational Corporations (TNCs) have come to occupy an important and strategic role in the world economic system of today. These are privately owned organizations with global operations and are guided by the principle of 'maximization of global profits'. TNCs enjoy control over modern and sophisticated technologies, vast financial and physical resources in large parts of the advanced world and many of the under-developed nations. Most of the TNCs have developed their own national and international systems of communication, consultation and coordination, which operate far more efficiently than any govenmental system. Their capabilities at offering lucrative employment opportunities cannot be matched by that of the governments. The fact that TNCs operate at the global level makes it also obvious that they have rich, varied and accumulated experience of dealing with Governments which profess adherence to varying faiths and shades in their ideological commitments, countries with different levels of effectiveness in their techno-legal regulatory systems as also economies at different stages in development. Most of the TNCs are products of the market oriented and industrially advanced economies. The home

countries can not but have a stake in their growth and expansion. The TNCs may not bring large and immediate surpluses but these do create long term assets for the home economies. Therefore, it should be no surprise if TNCs enjoy influence in and political backing of the home governments both at the level of internal and foreign policies. It is also not very often appreciated that TNCs are neither industry-specific nor country-specific. And further, since TNCs are business organizations, these organizations are fully conscious that they stand to benefit more under monopolistic positions rather than under open business confrontations. This awareness brings TNCs, even those belonging to otherwise unfriendly countries, together to share national and international markets through mutual agreements. These are some of the characteristics of TNCs -- each having a bearing on the role of TNCs and the manner and style of their operations.

Do governments in the developing countries have adequate appreciation of these characteristics of the institution of TNC? It would be easier to formulate policies and build objective expectations, if governments in the Third World were fully conscious of the various characteristics of TNCs. Unfortunately, this does not appear to be the case. Developing countries have yet to have an objective basis to evolve meaningful policies towards foreign private capital. Consequently, poor nations either do not have adequate mechanism to regulate, and if there is one, it is weak and based on unrealistic assumptions. We demonstrate this point with the help of Indian experience.

III

The role of Transnational Corporations in development and the associated dangers have been under discussion for nearly two decades at various international fora. India has actively participated in these discussions. The Eminent Persons Committee of the UN to study the impact of TNCs on world development was indeed chaired by an Indian. It is also generally believed that India is one of the more successful Third World countries which have been able to effectively regulate and control the entry and operations of TNCs. The cases of Coca Cola and the IBM are often cited as illustrations to underline the efficiency and

the stringent character of the measures that India was able to take against the powerful international giants who declined to fall in line. In this background it appears necessary to examine the Indian regulatory system with regard to TNCs.

Any administering system to be effective requires a clear legal definition of the area and its coverage. What is the legal definition of a TNC/MNC in India? While there has been a considerable degree of interest and assertion regarding TNCs in the policy making circles and Parliament, the fact remains that Indian government has yet to evolve a legal definition of a TNC. In India companies having substantial direct involvement of foreign capital are categorised under three heads: One, Branches of companies incorporated abroad; two, Indian subsidiaries of foreign companies (having majority equity held by one foreign company) and; three, Indian companies in which foreign-held equity is more than 40 per cent. Since there is no official definition of a TNC, in practice all companies covered by Foreign Exchange Regulation Act, 1973 are referred to as TNCs. The Company Law Department, the main source of information and data on the corporate sector, however, has for long been treating only Branches and Subsidiaries of foreign companies as TNCs/MNCs.

Parliament Members have, from time to time, been expressing their concern over the growth of transnationals in India and asked the Government to give facts on the growth of TNCs. Table-I provides the information furnished to Indian Parliament. From the official replies given to the highest forum of the country it would appear that

(i) the actual number of multinationals operating in India has declined substantially -- Branches, from 481 to 315; and the Subsidiaries, from 171 to 118;

(ii) the combined sales turn over of the two categories of companies (called Multinationals) witnessed a decline from Rs.38,785 millions in 1975-76 to Rs.29,657 millions in 1978-79; and

(iii) On the assets side the increase was from Rs.17,622 to Rs.23,738 million (for Branches) and from Rs.16,149 million to Rs.18,966 million (for Subsidiaries) during 1975-76 to 1979-80. The average rate of asset growth does not work out to be more than 6.6 per cent per annum.

Table: I

Foreign Branches and Subsidiaries in India
1975-76 to 1979-80

Particulars	1975-76	1976-77	1977-78	1978-79	1979-80
1	2	3	4	5	6
Branches of Foreign Companies					
1. Total No. of Branches	481	482	473	358	315
2. Data Available for	259	220	177	141	247
3. Assets (in India)	1,762.2	1,626.7	1,836.4	2,011.4	2,373.85
4. Turnover	1,380.4	642.0	690.0	418.7	N.A.
5. Profits before tax	57.9	89.4	50.1	15.9	N.A.
Subsidiaries of Foreign Companies					
1. Total No. of Subsidiaries	171	161	146	125	118
2. Data Available for	161	142	137	113	118
3. Assets	1,614.9	1,619.7	1,379.1	1,662.8	1,896.64
4. Turnover	1,498.1	2,712.7	2,730.6	2,547.0	N.A.
5. Profits before tax	219.5	257.7	267.0	256.5	N.A.

Source: Information furnished in the Parliament in response to R.S. Unstarred Question 683 on February 23, 1981 and L.S. Unstarred Question No.4153 on December 16, 1981.

On the basis of this data one gathers the general impression that Indian Government has been very successful in keeping the growth of foreign private capital under stringent control, has an empirical base.

The above account on the growth of TNCs is an erroneous one. The fact that the number of Branches and Subsidiaries of foreign companies operating in India has declined does not mean closure, take over or exit of the TNCs from the country. The factual position has got hidden under the process of implementation of the enactment of the Foreign Exchange Regulation Act 1973. A large number of foreign companies have diluted the percentage of foreign-held equity to a level that makes them not to be classified as 'Subsidiaries'. Therefore, the number of TNCs operating in India today, as against 1975-76 appears to have declined in a significant manner. The same holds true of such companies who have reduced their foreign equity to the level of 40 per cent or below. The number of FERA (and therefore TNCs in the legal sense) companies has also witnessed a significant decline.

The moment a TNC reduces the percentage of the foreign-held equity to 40 per cent or less it establishes a claim to be classified as an Indian national company for all policy purposes and gets out of the obligations which a TNC is obliged to live with. Table-II gives a list of some of the well known Transnationals which due to the equity dilution have got excluded from the official list of TNCs operating in India. Philips, Colgate-Palmolive, British American Tobacco, Cadbury, Ponds, Nestles, Horlicks and so on are all Indian companies now!. This fact of their 'acquired nationality' is well under scored by the company managements for the national consumers. One has only to have a look at the advertisements in the mass media to convince oneself of the change that has been brought about.

If dilution of foreign-held equity resulted, or could result at a later date, in transfer of control of the enterprises to Indian hands, one could find a justification for the company being treated as Indian and not a foreign one. But, the official policy has not been to change control over the managements. In fact, the Government of India has permitted legal agreements which ensure the minority equity holding companies (located abroad) to continue to enjoy the rights to appoint

Table: II

Illustrative List of Foreign Companies which became 'Indian' after Equity Dilutions Under FERA

S. No.	Name of the Indianized Company	Name of the Parent Company	Percentage of Foreign Equity After Dilution	Assets in 1981 (Rs. Crores)
	1	2	3	4
1.	Bata (I) Ltd.	Leader, AG, Switzerland	40.00	47.07
2.	Britannia Biscuit Co.Ltd.	Control Nominees, UK	38.00	25.88
3.	Brooke Bond (I) Ltd.	Brooke Bond Liebig, UK	39.90	75.41*
4.	Cadbury (I) Ltd.	Cadbury Schweppes Overseas, UK	40.00	17.06
5.	Colgate-Palmolive (I) Ltd.	Colgate-Palmolive Co., USA	40.00	18.11
6.	Crescent Dyes & Chmls.Ltd.	Imperial Chemical Inds., UK	40.00	13.82
7.	Food Specialities Ltd.	Nestle Holdings, Bahama Islands	40.00	17.86
8.	HMM Ltd.	Horlicks Ltd., UK	40.00	27.14
9.	ITC Ltd.	British American Tobacco, UK	39.90	181.65
10.	Indian Oxygen Ltd.	British Oxygen, UK	39.90	65.48
11.	Intl.Computers Indian Mfrs.	Intl. Computers, UK	40.00	17.57
12.	Parke Davis (I) Ltd.	Parke Davis & Co., USA	40.00	9.79
13.	Peico Electronics & Electricals Ltd.(Philips)	Philips, Holland	39.70	96.49
14.	Reckitt & Colman of(I) Ltd.	Reckitt & Colman, UK	39.90	11.23
15.	Sesa Goa Ltd.	Finsder, Italy	40.00	16.39
16.	Tube Invt. Co. of(I) Ltd.	Tube Investment, UK	39.92	31.00
17.	WIMCO Ltd.	Swedish Match Co., Sweden	39.50	50.21

* Indicates the figure for the year 1980.

Source: Corporate Information System, I.I.P.A., New Delhi.

key management persons as long as the foreign equity-holder had a certain percentage of interest in the equity shares. See Table-III. It is a very different issue if such agreements (which give disproportionate authority to foreign minority shares vis-a-vis the majority of the Indian shares) are in conformity with the basic principles of corporate democracy but the fact remains that a TNC does not remain a TNC, according to the official approach, even though its control and management is being directed and influenced from abroad.

A direct consequence of the equity dilution would be that the share of gross profits to be remitted abroad would be lower than what the TNC headquarters would have received if the dilution had not taken place. The percentage share being low for an investor, however, does not, mean that the absolute amount of profits would also be necessarily lower. In fact, it appears to have been just the reverse in actual practice, as dilution of equity has invariably been accompanied by widening of the equity base.

The enactment of Foreign Exchange Regulation Act, 1973 was described by many as a landmark in the attempts to control direct foreign private investments. The equity dilution strategy of the Act was, apart from the objective of having a majority for the Indians, based on the assumption that since TNCs were making very high profits in India a reduction in the foreign-held equity would reduce the continuing drain on the limited foreign exchange resources of the economy. If the overall objective of the enactment was to conserve foreign exchange resources, a preliminary question requiring empirical verification would be: How significant are the profit remittances by the TNCs in the overall quantum of the foreign exchange utilized by them. Table-IV shows the pattern of foreign exchange utilization by the subsidiaries of foreign companies in India. It would be noticed that 'dividend remittances' accounted for less than 5 per cent of the overall foreign exchange utilized by the TNCs during 1975-76.

With regard to the Indian official approach towards TNCs for purposes of regulations one has underlined the weakness of the very definition of what should be treated as a TNC; and secondly, that the basic assumptions of the regulatory legislation i.e. FERA were only too

Table: III

Showing an Illustrative List of Companies Which Diluted Foreign Equity under FERA, 1973 with Rights to Appoint Directors Held by the Parent Company

S. No.	Indian Affiliate	Parent Company	Minimum share holding needed to exercise right	Right to appoint or remove
	1	2	3	4
1.	Abbot Laboratories (I) Ltd.	Abbot Laboratories, USA	25	One third (including Managing Director) of the total Board of Directors.
2.	Colgate Palmolive (I) Ltd.	Colgate-Palmolive Co.,USA	20	-do-
3.	Corn Products Co. (I) Ltd.	CPC International Inc. USA.	..	Chairman and Vice-Chairman
4.	Davy Ashmore (I) Ltd.	Davy-Ashmore (I) Ltd., UK.	26	One third (including Managing Director) of the total Board of Directors.
5.	E. Merck (I) Ltd.	Chemitra Gmbh	26	One third (non-retiring including Managing Director) of the Board.
6.	Fulford (I) Ltd.	Schering-Plough Holdings Ltd., UK.	10	One third (including Chairman) of the Board of Directors.
7.	Lipton Tea (I) Ltd.	Unilever Ltd., UK	26	Managing Director
8.	Malayalam Plantations (I) Ltd.	Malayalam Plantations (Holding) Ltd., UK.	26	One third (including Managing Director) of the total Board of Directors
9.	Mather and Platt (I) Ltd.	Mather & Platt Ltd., UK.	26	Chairman and Managing Director
10.	May & Baker (I) Ltd.	May & Baker Ltd., UK	26	One third (including Managing Director) of the total Board of Directors
11.	Nicholas Laboratories (I)Ltd.	Aspro-Nicholas Ltd., UK	..	Chairman and Vice-Chairman
12.	Parke-Davis (I) Ltd.	Parke-Davis & Co. Ltd. USA	..	Chairman and Vice-Chairman
13.	Pieco Electronics & Electricals Ltd.	Philips, Holland	26	Managing Director
14.	Pfizer Ltd.	Pfizer Corporation, Panama	..	Managing Director
15.	Sesa Goa Ltd.	Finsider, Italy	26	Chairman
16.	Thomas Cook (I) Ltd.	Thomas Cook Overseas Ltd.,UK	..	Chairman & Managing Director

Source: Cols. 3 and 4 are based on information given in Prospectuses of respective companies.

Table: IV

Showing Pattern of Foreign Exchange Utilization by Foreign Subsidiaries (1975-76)

S. No.	Item	133 Foreign Subsidiaries (Rs.Thousands)	% of Total (Col.2)	189 Foreign Controlled (Rs.Thousands)	% of Total (Col.4)
1.	Capital Goods (Machinery)	65,401	2.95	2,14,900	8.26
2.	Raw Materials	19,02,793	85.71	20,47,400	78.26
	(of which oil imports)	(7,17,019)	(32.29)	(7,17,019)	(27.55)
3.	Spares	47,612	2.14	1,09,400	4.20
4.	Interest	13,616	0.61	16,300	0.63
5.	Dividends	1,10,298	4.07	1,23,800	4.76
6.	Know-how	19,581	0.88	21,800	0.84
7.	Royalty	7,991	0.34	8,400	0.32
8.	Travelling	2,457	0.11	2,700	0.10
9.	Commission	17,075	0.77	20,300	0.80
10.	Others	33,320	1.50	37,000	1.42
11.	TOTAL	22,20,144	100.00	26,02,800	100.00

Source: S.K. Goyal, "The Impact of Foreign Subsidiaries on India's Balance of Payments," a study prepared for the Joint CTC-ESCAP Unit (mimeo), 1979. Public Policy and Planning Division, Indian Institute of Public Administration, New Delhi.

weak to provide any meaningful comfort to the country on account of the foreign exchange situation. One could probably show that the FERA has proved to be a blessing for TNCs as they have gained national acceptability not only with consumers but also with the Indian Government and policy makers without any loss of freedom or control over their investments.

It is a widely accepted view that the only comprehensive policy statement on the role of foreign private capital was made in 1949 by the then Prime Minister, Jawaharlal Nehru. The official expectations were that foreign private capital would:

(a) supplement domestic savings,

(b) provide requisite sophisticated technology, and

(c) provide the foreign exchange component of capital outlay of the projects.

These assumptions emerge from the 'priming the pump theory' -- very similar to the recommandations under the Programme of Action for establishment of the New International Order of the UN General Assembly for capital transfers from the developed to the under-developed countries. By now there is sufficient evidence to indicate that all the three expectations have proved to be misplaced ones. Government sponsored financial institutions in India have extended large rupee as well as foreign exchange loans to the TNCs and this too at low rates of interest. Additionally, TNCs have been granted special advantages and preferences in accommodating against loans granted to India at cheap and convenient terms. No substantial capital transfers have taken place over the past three decades. Probably, the net contribution of the TNCs has been a negative one. With many TNCs acquiring Indian nationality there could be reasons to expect that there would be a net outflow of capital from India under the plea of joint ventures abroad -- more so under the South-South collaborations, ITC from India establishing production capacities in Nepal, Philips of India to Africa and so on. The other interesting feature of the Indian policy is that while on the one side there was policy expectation that private foreign companies would bring capital from abroad (by way of investments, loans and credits) there are stringent rules prohibiting entry of TNCs, as well as other Indian companies, into the world capital markets.

During the past many years the Indian policy has been to promote Indian exports on a priority basis so that the country can meet the enhanced costs of oil imports and obtain other crucial industrial goods required for her development and defence. In recognition to the hard reality that the market structures in the developed economies are controlled by TNCs, it is suggested that TNCs alone can help India to step up her exports by offering access to home trade channels. How far this assumption has empirically been proved to be a valid one needs to be assessed. But it seems that the TNCs would indeed be willing to help India step up her exports provided India also allows the TNCs to import liberally --. capital goods, raw materials and so on. It is only logical that TNCs should enhance the overall size and proportion of the Indian foreign trade being routed through them. It should have been understood by policy makers that TNCs cannot promote any one country's interests -- e.g. Indian exports. TNCs as global institutions have to keep in mind the interests of all of their subsidiaries in whichever country they operate. Thus, the policy assumption that TNCs can prove as net earners of foreign exchange through promotion of Indian exports abroad, seems to be an exaggerated, and probably, an equally misplaced one.

Let us take another example from the Indian policy framework of TNC regulations. The general policy pursued by India is that it does allow foreign investments in only such areas wherein the country does not possesses the necessary technology. Thus, all foreign investors would have had, from the day of their entry, a monopoly position in the product area of their operations. TNCs, as a rule, therefore, would enjoy a dominant market position in the country. By this logic all foreign companies should normally be registered under the Monopolies and Restrictive Trade Practices Act. This is not a reality. In fact, the legal provisions of the MRTP Act are such that these leave even many of the world giants, which are operating in India, outside the MRTP Act scope. Table-V provides an illustrative list of TNCs which are not even registered under the Indian MRTP Act.

It is not only that many TNCs are outside the scope of investigations under the MRTP Act, what one finds equally interesting is that a good number of TNC subsidiaries operating in India had in fact

Table: V

Showing an Illustrative List of Foreign Companies which are not Registered under MRTP Act

1. Bayer India Ltd.
2. Cadbury India Ltd.
3. Colgate Palmolive Ltd.
4. Ponds India Ltd.
5. Molins India Ltd.
6. Roche Products (India) Ltd.
7. Sandoz India Ltd.
8. HMM Ltd.
9. Food Specialities Ltd.
10. Parke Davis Ltd.
11. Warner Hindustan Ltd.
12. Polydor India Ltd. (Now Music India Ltd.)
13. Fibreglas Pilkington Ltd.
14. Goodlass Nerolac Paints Ltd.
15. Duphar Interfran Ltd.

been registered as small scale industries. These foreign companies did not obtain any industrial licence, and were able to take advantage of cheap finance, priority allocation in raw materials, power, subsidised infrastructural facilities and avail of a variety of fiscal concessions -- all as small scale units. Table-VI provides an illustrative list of such cases.

Quite apart from the weaknesses in the regulatory policies, misplaced expectations and absence of effective coordination, there are a host of issues emerging from the weak and inadequate legal systems in the developing countries which are fully taken advantage of by TNCs. The wide spread resort of the TNCs in pharmaceutical and drugs to harmful and unethical practices has already received world wide attention. To expect that a TNC would not take advantage of what the local laws permit would be asking for only too much. TNCs are in business and not in promotion of social welfare. This explains the Indian experience with TNCs in matter of industrial licensing (See Table-VII). Even though the number of foreign compaies operating in India is a small one, nearly half of the total cases of gross violation (i.e. more than 100 per cent excess production over the authorised capacities) were that of the TNCs and their associates. One can cite a large number of instances where TNCs have openly flouted the spirit of the regulations; but by and large nothing can be done against them legally. For instance, much has been said about the exit of the IBM from India. But very few would know that a Parliamentary Committee had discovered that IBM was involved in clear cases of illegal "transfer pricing practices". The company would have faced legal action and it would have been embarassing; as an alternative it chose to exit on the plea of declining to accept the demands under FERA. Incidentally, IBM is back in business under a new name.

It is our contention that one should not place the entire blame on TNCs for their practices if these happen to be un-ethical or if the TNCs do not come up to the expectations of the host countries. A more purposive approach would be to have a hard look at the regulatory policies and assess weakness in the operating mechanisms. This should be done with an objective and critical appreciation of the institution of TNC. Unless these exercises are undertaken by the developing

TABLE-VI

Illustrative List of Multinationals which Had Small Scale Units in India

S. No.	Name of the Multinational Company	Remarks
	1	2
1.	Avery Co. of (I) Ltd., Delhi	Foreign Subsidiary (1966)
2.	Britannia Biscuit Co. Ltd., Delhi	-do-
3.	E. Hill & Co., P. Ltd., Mirzapur.	-do-
4.	Tyresoles Concessionaires P. Ltd.,Delhi	-do-
5.	East India Distilleries & Sugar Factories Ltd., Kottayam	The company later became E.I.D. Parry (I) Ltd. Foreign Branch (1966)
6.	Getz Brothers & Co., Calcutta	Foreign Branch (1966)
7.	Minimax Ltd., Ranchi	-do-
8.	Monotype Corpn., Bangalore	-do-
9.	West's Patent Press Co. Ltd., Aligarh	-do-
10.	Cambridge Instruments (I) Ltd., Bombay	FERA
11.	Chelpark Co. Ltd., Madras	-do-
12.	Crompton Engg. Co. Ltd., Madras	-do-
13.	Eastern Scales P. Ltd, Calcutta	-do-
14.	Eastern Assam Tea Co. Ltd. (Group Workshop), Lakhimpur	-do-
15.	Fordham Pressing (I) Ltd., Bombay	-do-
16.	Hindustan Klockner Switchgear Ltd., Bombay	-do-
17.	Travancore Tea Estates Co. Ltd. (Peermade Foundry)	-do-
18.	Sharpedge Ltd., Delhi	Promoted by Hindustan Lever and Escorts.
19.	Bluemount Ceramic P. Ltd., Matham Palayam	Was registered under MRTPA GEC House
20.	Sankar Electricals P. Ltd., Madurai	-do-
21.	Pandiyan Press Ltd., Madurai	Was registered under MRTPA, Madura Coats House.
22.	A.L.A. Chemicals Ltd., Bombay	FERA
23.	C.E. Fulford (I) Ltd., Bombay	-do-
24.	Carter Wallace P. Ltd., Goa	-do-
25.	Ethnor Ltd., Bombay	Subsidiary of Johnson & Johnson Ltd. (a FERA Co.)
26.	Indian Schering Ltd., Bombay	FERA

S. No.	Name of the Multinational Company	Remarks
	1	2
27.	J.K. Helen Curtis Ltd., Bombay	-do-
28.	Nicholas of (I) Ltd., Bombay	-do-
29.	Roussel Pharmaceuticals Ltd.,Bombay	Subsidiary of Hoechst Pharmaceuticals Ltd. (a FERA Co.)
30.	Smith Kline & French (I) Ltd.,Bombay	FERA
31.	Whiffens (I) P. Ltd., Bombay	-do-
32.	Indian Transformers Ltd., Alwaye	Was registered under MRTPA, under GEC House
33.	Precision Tools India Ltd., Calcutta	Was registered under MRTPA, under Macneill Magor House
34.	Ascu Hickson Ltd., Calcutta	FERA
35.	Beclawat of (I) Ltd., Karamsad	-do-
36.	Shah Medical & Surgical Co. Ltd., Baroda	-do-

Note: Sl. No. 1 to 18 were listed in the FASII All India Directory and Hand Book of Small Industries, 1966 published by the Federation of Associations of Small Industries in India.

Sl. No. 19 to 21 were listed in the Directory of Small Scale Industrial Units in Tamil Nadu; Supplement to the Second Edition (From 1-1-64 to 31-12-67), 1969, published by the Director of Industries and Commerce, Tamil Nadu.

Sl. No. 22 to 31 were listed as small scale manufacturers who are members of Basic, Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council in the Thapar's Indian Industrial Directory & Export & Import Directory of the World, 1980-81.

Sl. No. 32-33 were registered for government purchases being Small scale units. See Directory of Small Units Enlisted for Government Purchases, 1976, published by the National Small Industries Corporation Ltd.

Sl. No. 34 to 36 were registered for government purchases being small scale units. See Directory of Small Units Enlisted (Under Single Point Registration Scheme) for Government Purchases, 1980 published by the National Small Industries Corporation Ltd.

FERA in Col. 2 indicates that the company was one of the applicants which applied to the Ministry of Finance under the Foreign Exchange Regulation Act.

TABLE-VII

Showing the Distribution of Licences Utilized in Excess of Licensed Capacity According to the Licensee Category and Level of Utilization

S. No.	Licensee Category	No. of Licences in Excess Utilization Range				Excess Utilized Licences Total
		Upto 25 (%)	25-50 (%)	50-100 (%)	100 and above(%)	
	1	2	3	4	5	6
1.	MRTP Companies	112 (61.5)	44 (67.7)	21 (50.0)	36 (56.3)	213 (60.3)
2.	Dominant Undertakings	45 (24.7)	11 (16.9)	6 (14.3)	6 (9.4)	68 (19.3)
3.	Large Houses (CIS Classification)	134 (73.6)	50 (76.9)	28 (66.7)	46 (71.9)	258 (73.1)
4.	Other Groups (CIS Classification)	16 (8.8)	4 (6.2)	6 (14.3)	2 (3.1)	28 (7.9)
5.	Companies presently under public management	1 (0.5)	0 (0.0)	1 (2.4)	0 (0.0)	2 (0.6)
6.	Former Branches, Subsidaries (ILPIC) and FERA companies (1974)	55 (30.2)	23 (35.4)	15 (35.7)	31 (48.4)	124 (35.1)
7.	Others with Foreign Equity above 25%	16 (8.8)	8 (12.3)	3 (7.1)	3 (4.7)	30 (8.5)
8.	Others with Foreign Equity between 10 to 25%	10 (5.5)	2 (3.1)	1 (2.4)	1 (1.6)	14 (3.9)
9.	Joint Sector Companies	7 (3.8)	1 (1.5)	0 (0.0)	3 (4.7)	11 (3.1)
10.	Other Companies	32 (17.6)	11 (16.9)	7 (16.7)	16 (25.0)	66 (18.7)
	All Companies	182 (100.0)	65 (100.0)	42 (100.0)	64 (100.0)	353 (100.0)

Notes:
1. The column totals will not agree as there is overlapping of companies in the above groupings. A company may be a FERA one and also MRTP Act registered one. Therefore, each group of companies has to be treated as such.
2. Figures in brackets are percentages calculated with respect to the total number of licences in each utilization range.
3. C.I.S.: Corporate Information System Classification.

Source: Corporate Information System, I.I.P.A., New Delhi.

countries themselves no amount of internationally agreed norms or codes of conduct can be of much help. In this, there is need to extend and promote empirical studies in the areas of regulations and undertake policy research -- particularly, for the lead sector of the developing economies, i.e., industrial and organized sectors. There was also a need to study the effectiveness of various regulatory enactments in order to identify the areas wherein the regulatory mechanisms need strengthening or rationalisation. It needs also to be assessed if the monitoring of the corporate sector in general and operations of the TNCs, in particular, can be effectively achieved on the basis of the traditional systems of data collection, compilation and analysis. The results of such inquiries can not only help the individual countries but also assist in evolving realistic policy alternatives in development for the developing countries in general. Indian experience by itself may have relevance for a number of the developing economies in the spirit of the NIEO.

WORKING PAPER NO. 6

INDIAN JOINT VENTURES ABROAD
(With Special Reference to Islamic Countries)

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It is widely accepted that the Third World countries should co-operate among themselves for mutual benefit and avoid exploitation by the western developed countries and the multinationals supported by them.[1] The Third World countries, however, have yet to evolve a comprehensive framework for mutual cooperation. Indeed, it is an unfortunate reality that most of the Third World nations are not equipped with adequate expertise, knowledge and objective information on global issues so as to understand the complexities and advantages of mutual cooperation. On the other hand, the developed nations cannot be expected to assist the process of South-South cooperation in a form that would make the developing nations more independent of the developed capitalist countries of the West. The Third World countries, therefore, will have to decide on their own and work for mutual help in spite of the likely opposition from the rich countries.

It is true that the Third World as a whole does not have the kind of industrial capabilities and sophisticated technologies that the rich nations can offer to the Third World. However, do the poor countries need very high levels of technologies at the present stage of their development? Probably, the answer is in the negative. Quite apart from this, it is also doubtful if the rich nations would ever make the most modern and sophisticated technologies available to the poor nations. Past experience shows that Third World is invariably dumped with outmoded technologies and the developed countries do not even transfer the capital and help which is promised. The aid, grants and investments are so managed to promote the self interest of the West instead of providing genuine support to the processes of development in the Third World countries. It is thus clear that poor nations will have to learn to live on their own and support activities of mutual benefit.

Among the Third World countries India has a fairly high level of industrial development. The managerial and business experience of India could be of direct relevance to other developing countries. India

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has imported technologies but it has taken steps to adapt these to its needs. In a way, therefore, India could be a potential source of technology which is more suitable to capital scarce and labour surplus developing countries. It is in this context, that one needs to review and discuss the role and experience of India in promoting South-South cooperation.

Broadly speaking, South-South Co-operation can be achieved through:

i) transfer of technology;

ii) transfer of managerial expertise;

iii) transfer of manpower; and

iv) by undertaking investments through joint venture projects by private and public sector undertakings in other developing countries.

The present study confines itself to a review of the development cooperation through promotion of joint venture projects as set up by the Indian private and public sector undertakings in other countries in general and the Islamic countries, in particular.

'Joint Venture' has been defined as a form of association, including commercial and industrial collaboration, in which residents or corporate entities from two or more countries share the responsibility for setting up and operating a new enterprise by providing risk capital, goodwill, know-how and management in an agreed manner. For Indian companies seeking to undertake investments in joint ventures abroad, general guidelines have been issued by the Government of India. The applications for joint ventures are approved by the Inter-ministerial Committee comprising of the representatives of the Ministries of Commerce, External Affairs, Finance, Industry, Agriculture, Steel and Mines, DGTD, and the Department of Company Affairs. The Guidelines stipulate that :

i) Indian participation abroad should ordinarily be through corporate entities registered in India and having at their command the necessary manufacturing experience and technical competence;

ii) Participation by Indian companies should be in accordance with the rules and regulations of the host country; and

iii) The mode of participation in the equity share capital should normally be through export of capital equipment and technology, but cash remittance will be permited in the deserving cases depending on the merits of each case.

The data and information on Indian joint ventures (IJV) abroad is obtained mainly from the Indian Investment Centre (IIC). The reference point of the study is September 30, 1982. The information available covers the following:

(i) name and address of the Indian party;

(ii) name and address of the joint venture;

(iii) field of operation;

(iv) total equity and the equity held by the Indian parties in local currency as well as the rupee equivalent of the Indian equity; and

(v) the status of the project i.e. when was it sanctioned, whether it is under implementation and if it has commenced operations.

The ownership character of the Indian parties involved in joint ventures abroad has been determined on the basis of the data available with the Corporate Information System of the Indian Institute of Public Administration, New Delhi. While the information with the IIC is supposed to be comprehensive, we find that in reality it is not so. The listings of the IIC cover only a part of the Indian ventures abroad. One comes across a number of overseas ventures by Indian companies, in which Indian Business Houses have varying degrees of equity participation, but these do not appear in the listings of the IIC. In particular, one finds that wholly owned subsidiaries, operating both in developed and developing countries, do not find a place in the IIC list. For instance, Birla AG, Switzerland, a subsidiary of Jiyajeerao Cotton Mills Ltd., a Birla House company; Shaw Wallace & Hedges Ltd., Sri Lanka, a subsidiary of Shaw Wallace & Co. Ltd. of India, a member of the Sime Derby Group; Jaykayorg AG, Switzerland, a subsidiary of Raymond Woollen Mills Ltd., a company belonging to the J.K. Singhania House; and Leila Lands Sendirian Berhad, Malaysia, a wholly owned subsidiary of Bombay Burmah Trading Corporation Ltd., a Wallace House Company; do not appear in the fact-sheets brought out by the Indian Investment Centre. One also finds that some of these IJV involve themselves in inter-corporate investments, and the newly floated companies of the joint ventures are not noticed by the Indian authorities. The IIC list, strangely enough, does not include IJV set up for 'Turnkey Projects' and 'Construction Jobs'. For instance the IIC list does not have any reference to Indian operations in Iraq and Libya.

Growth of Indian Joint Ventures

The guidelines make it obvious that corporate bodies, from the official viewpoint, are the preferred form of entrepreneurship for promoting joint ventures abroad. The guidelines also recognize that India is not a capital surplus country; and therefore participation in equity of the joint ventures should be, preferably, through export of capital goods. The need to respect the host country's rules and regulations is specifically underlined. The Government also seems to be anxious to avoid the danger of inefficient and incompetent people (not possessing the necessary technology) going abroad to set up joint ventures. The guidelines are clear and seek to protect the interests of both the home and the host country. Historically speaking, it appears that the first attempt at setting up joint ventures abroad from India, was made by the Birlas in the 'fifties'. The Birlas established a textile mill in Ethiopia. But the process of Indian capital going abroad gained momentum only during the last decade. Out of the 465 cases approved for setting up of joint ventures abroad till the end of March, 1982, only 106 were approved prior to 1971. Out of these 134 were in operation and another 86 were at various stages of implementation.

Table-I gives the number of year-wise approvals and the implementation status as at the end of March, 1982. It appears that the number of approvals per annum was higher during the post-1973 period. But one does not find any clear upward trend. The peak was reached in 1977. We find that out of the 345 cases approved till the end of 1978, only 99 (28.7 per cent) were in operation at the end of March, 1982. A high failure rate appears to be an obvious conclusion. In international investments this may not be an unusual phenomenon. The mere fact of an approval does not indicate much.

Of the 465 cases, as many as 196 approvals remain wholly unimplemented and another 49 are reported to have been abandoned. In short, out of the total proposals for joint ventures approved more than half were either not implemented or were abandoned after initial steps were taken. The proportion of drop-outs has been considerably less after 1977. While one can expect some time to lapse before a project

Table – I

Yearwise Approvals of Joint Ventures and Their Present Position

Year	In Operation	UI	A	NI	Total	NI as % of Total
1	2	3	4	5	6	7
1970 & Before	19	-	22	65	106	61.3
1971	5	-	3	10	18	55.6
1972	5	-	2	16	23	69.5
1973	6	-	1	8	15	53.3
1974	13	-	5	13	31	41.9
1975	12	1	7	14	34	41.2
1976	10	1	4	19	34	55.9
1977	18	3	3	25	49	51.0
1978	11	11	2	11	35	31.4
1979	15	7	-	6	28	21.4
1980	13	21	-	3	37	8.1
1981	7	32	-	6	35	13.3
Jan-Mar 82	-	10	-	-	10	-
Total	134	86	49	196	465	42.2

Notes: 1. UI – Under Implementation

2. A – Abandoned

3. NI – Not Implemented

Source: Indian Investment Centre.

goes on stream, it appears that most of the proposals approved prior to 1978 but still pending implementation, can be treated as abandoned.

At the end of September 1982, there were 137 Indian joint ventures which had already gone into production; in another 89 cases, the proposals were under the process of active implementation. We attempt below an analysis of these 226 cases in terms of geographical

distribution, nature of Indian partners, extent of equity participation and field/industry of operation. Table-II shows region-wise distribution of the 226 joint ventures. Nearly 40 per cent of IJV (90 in number) are located in the South East Asia region. In terms of capital invested also, the region's share is nearly the same. The case of Africa is interesting because the 44 joint ventures (19.47 per cent) located in this region account for as high as 43.6 per cent of the total capital invested in the IJV. The share of oil exporting West Asia and the advanced countries, in terms of capital invested, is considerably less than their share in the total number of IJV. 27.88 per cent of the joint ventures are located in developed and oil exporting West Asian countries, but in terms of equity investment the share of these was only a little over 9 per cent. South Asia (comprising Nepal, Bangladesh and Sri Lanka) seems to have provided very little attraction to Indian entrepreneurs.

Table - II

Showing Broad Regional Distribution of Indian Joint Ventures*

Region	No.	%age share of Col. 2	Equity (Rs.'000)	%age share of Col. 4
1	2	3	4	5
Africa	44	19.47	528882	43.56
South East Asia	90	39.82	473460	38.99
South Asia	29	12.83	97391	8.02
West Asia	25	11.06	65015	5.35
Europe, America and Australia	38	16.82	49493	4.08
TOTAL	226	100.00	1214241	100.00

* Joint Ventures either in operation or under implementation.

One can view the distribution of joint ventures in many ways. One way of looking at these ventures, is from the angle of religion. For instance, it is suggested that one should examine the distribution of IJV as operating in the Islamic countries. Apart from a question about the logic of undertaking the exercise on the basis of religion, one is

not sure if it would be an adequate or easy way to classify countries in these terms. It is a difficult and controversial issue. Should one go by the:

(i) size of Muslim population;

(ii) percentage of Muslim population;

(iii) Constitutional character of the country;

(iv) historical and geographical affinity; or

v) by the fact that a country was a member of the Islamic Conference during a particular period?

There would to a certain degree be an unavoidable use of discretion. Since, we are not competent to group countries as Islamic or non-Islamic, (as we have serious reservations about the very concept and the advantages of pursuing this line of inquiry), we have gone by the classification as given in the 'Encyclopaedia Britannica'. "There are over 30,000,000 Muslims in the Soviet Union; and Muslim majorities exist in Albania, Bangladesh, Chad, The Gambia, Lebanon, Malawi, Malaysia, Niger, Senegal, The Sudan, and Syria. The Arbian Peninsula, Afghanistan, Algeria, Iran, Libya, Mauritania, Morocco, Somalia, Tunisa, and Turkey are nearly 100 per cent Muslim. Indonesia, Iraq, Jordan, Mali, Pakistan, and Egypt are all predominently Muslim (90 per cent or over)".[2]

Islamic countries have been grouped under two categories, hereafter, referred to as 'Group I' and 'Group II'. Group I comprises non-oil exporting Islamic countries such as Bangladesh, Indonesia, Malaysia, Senegal and Sudan. And Group II consists of oil-exporting Islamic countries including Bahrain, Kuwait, Oman, United Arab Emirates, Saudi Arabia and Nigeria. The grouping is based on the premise that the investment requirements of oil exporting and rich countries would be different from that of the others.

Out of the total 226 joint ventures in production and at various stages of implementation, Islamic countries accounted for 40 per cent i.e. 91 joint ven ures (See Table-III). Group-I countries accounted for 21.24 per cent (48 joint ventures) and Group-II accounted for 19.03 per cent (43 joint ventures). Both Groups have a nearly equal share in the number of projects. If one goes countrywise, Malaysia had the largest number of ventures followed by Nigeria and Indonesia. But if we

Table - III

Showing Countrywise Distribution of Indian Joint Ventures

Groups	No.	%age share of Col. 2	Equity (Rs.'000)	%age share of Col. 4
1	2	3	4	5
GROUP- I				
Senegal	1	0.44	169600	13.97
Indonesia	17	7.52	161717	13.32
Malaysia	28	12.39	132338	10.90
Sudan	1	0.44	36000	2.96
Bangladesh	1	0.44	837	0.07
Total GROUP-I	48	21.24	500492	41.22
GROUP-II				
Nigeria	18	7.96	165343	13.62
Oman	3	1.33	21088	1.74
Saudi Arabia	6	2.66	19945	1.64
U.A.E.	12	5.31	14020	1.16
Bahrain	2	0.88	7610	0.62
Kuwait	2	0.88	2352	0.19
Total Group-II	43	19.03	230358	18.97
Total of Group I and Group II	91	40.27	730850	60.19
Other Countries	135	59.73	483391	39.81
TOTAL	226	100.00	1214241	100.00

analyse from the angle of equity participation, out of the total Indian equity participation of Rs. 121.42 crores, Islamic countries account for Rs. 73.08 crores i.e. 60.19 per cent. In this perspective one finds that well over half of the total Indian equity is invested in the joint projects located in Islamic Countries. The two Groups differ in terms of their share in equity. Group-I had Rs. 50.05 crores as Indian equity (41.22 per cent) and Group-II has only Rs. 23.04 crores (18.97 per cent). It is understandable that the oil rich Group II countries have not gone in for more Indian equity participation than the other

Group. This may be also because of the differences in the activities of joint ventures in oil rich countries. A larger number of joint ventures in Group-II countries have been in the area of construction and trade. Malaysia has the largest number of joint ventures i.e. 28 among all the Group I and Group II countries, followed by Nigeria and Indonesia with 18 and 17 ventures respectively. The four countries Malaysia, Nigeria, Indonesia and Senegal account for a little more than half of the total Indian equity in the IJV. One single joint venture in Senegal alone accounted for as high as 13.97 per cent of the total equity capital. This joint venture is set up by a consortium consisting of Indian Farmers Fertilisers Cooperative Ltd., (a co-operative); Southern Petrochemical Industries Corporation Ltd., (a Chidambaram House Company) and the Government of India, for production of fertilisers and phosphoric acid.

In Group II, barring Nigeria which has 13.62 per cent of total Indian equity, the rest of the countries have a very little equity participation. Though nearly 60 per cent of the IJV are located in non-Islamic countries, they account for only 40 per cent of the equity.

Equity Participation in Joint Ventures:

The relative share of equity held in a company in general, is expected to reflect the extent of control exercised by the respective party. However, this need not necessarily be true in all cases because control can also be exercised by various other means, like appropriate clauses in the Articles of Association of the company, terms of technical collaboration agreements, selling agency contracts, etc. We have attempted a limited exercise at estimating the propensity of the Indian entrepreneurs to gain control over the joint ventures they have entered into with the help of their share in the equity capital. Participation in equity by the Indian entrepreneurs is generally through:

(i) capitalisation of exports of machinery and equipment;
(ii) non-remitted dividends;
(iii) loan adjustments;
(iv) consultancy and other service fees; and
(v) royalties.

It is difficult to identify the share of actual cash remittances by Indian investors for purposes of equity participation as the data provided by the IIC does not give such a break-up. The data available, however, helps to gain a general idea of the degree of the Indian equity participation in these ventures. Table-IV shows the distribution of joint ventures in different equity ranges. Out of the 226 IJV, in the case of one company the pattern of equity sharing is not available. For the purposes of comparison of the extent of the Indian equity, seven ranges have been identified. A significant number of joint ventures have 41 to 50 per cent of equity participation i.e. 55 out of 226 (24.44 per cent). This is followed by the 31-40 per cent range with 49 cases (21.8 per cent) and the 21-30 per cent range with 44 cases (19.6 per cent). Nearly two-thirds of the cases fall in the range of 21 to 50 per cent equity participation. It may not be out of place to quote the Federation of Indian Chambers of Commerce and Industry, a staunch supporter of IJV, regarding equity participation by Indian parties. The Federation observed, "Notwithstanding this low capital base and small shareholding, Indian partners in most of the joint venture projects have been given the responsibility of managing the units and some of them have undoubtedy made a mark."[3]

Table - IV

Showing Indian Equity Proportion-wise Distribution of Joint Ventures

Percentage of Equity	Group-I	Group-II	Group-I & Group-II	Others	Total	%age share of Col. 6
1	2	3	4	5	6	7
1-10	1	3	4	10	14	6.22
11-20	10	6	16	13	29	12.89
21-30	9	7	16	28	44	19.55
31-40	12	14	26	23	49	21.78
41-50	10	10	20	35	55	24.44
51-75	5	2	7	19	26	11.56
75 and above	1	0	1	7	8	3.56
Total	48	42*	90	135	225*	100.00

*Data on equity participation is not available for one joint venture.

It appears that there are some marginal differences between Islamic and other countries in the pattern of equity participation. For instance, nearly 70 per cent of the joint ventures in Islamic countries have Indian equity lower than 40 per cent. But in other countries the corresponding percentage is 55. This means that in Islamic countries there are relatively more IJV with less than 40 per cent level of equity participation. The equity share of Indian companies was 75 per cent or more in the case of only 8 joint ventures located in the Islamic countries. In Group I and Group II, there are twelve and fourteen joint ventures, respectively, in the equity range of 31 to 40 per cent. There is only one joint venture in an Islamic country (in Group I) in which there is more than 75 per cent Indian equity participation, i.e., Sarabhai M. Chemicals, a Sarabhai house company in Indonesia.

Nature of Activities

Indian joint venture projects cover a wide range of industries. These range from engineering industries to turn key projects, maintenance of hotels, trading and provision of consultancy services. Nearly 18 types of industries are covered by the joint ventures. Engineering, Hotel, Construction, Trading and Textile industries account for nearly 55 per cent of the total joint ventures. Table-V shows the distribution of joint ventures according to country and industry groups, both in terms of the number of joint ventures and the size of equity held.

In terms of numbers, the engineering industry stands first with 46 ventures. This is followed by hotels, construction, trading and textiles. Engineering, chemicals and textiles explain a large part of the economic activity by the IJV, each accounting for a nearly 18 per cent share of the total Indian equity held abroad. The paper and pulp industry comes next with a 10.3 per cent share. Other industries, of significance, were vegetable oil refining, banking and hotels. The concentration of equity capital in manufacturing industries may also be a result of the capitalisation of machinery and equipment exported by the Indian parties. The manufacturing units have a disproportionately high share of Indian equity invested relative to the service and consultancy units. Even otherwise, it is natural that manufacturing

Table – V

Showing Inter-Sectoral Distribution of Indian Joint Ventures Abroad

(Rs. '000)

Sector	Countries								
	Group I		Group II		Other		Total		%age share
	No.	Equity	No.	Equity	No.	Equity	No.	Equity	of Col. 9
1	2	3	4	5	6	7	8	9	10
Manufacturing									
1. Engineering	15	47376	7	53675	24	120273	46	221324	18.23
2. Textiles and Yarn	9	110147	2	34065	11	74779	22	218991	18.04
3. Chemical, Dyestuffs and Fertilizers	5	182824	3	10300	8	25410	16	218534	18.00
4. Paper and Pulp	1	20016	–	–	2	105301	3	125317	10.32
5. Vegetable Oil Refining & Fractionation	8	82898	–	–	1	712	9	83610	6.89
6. Cement, Glass & Ceramics	2	6790	2	34745	2	6849	6	48384	3.98
7. Mineral Exploration	–	–	–	–	2	22000	2	22000	1.81
8. Electrical	3	5858	2	3647	6	11014	11	20519	1.69
9. Rubber and Canvass Goods	–	–	1	948	4	11625	5	12573	1.04
10. Drugs and Pharmaceuticals	2	7597	2	2340	3	1660	7	11597	0.96
11. Food Products	–	–	2	1900	6	8713	8	10613	0.87
12. Readymade Garments	1	837	–	–	2	2252	3	3089	0.25
13. Packaging & Bottling	–	–	–	–	3	1800	3	1800	0.15
SUB-TOTAL	46	464343	21	141620	74	392388	141	998351	82.22
Service & Consultancy									
14. Banking	1	36000	1	28000	4	6715	6	70715	5.82
15. Hotels, Restaurants and Travel	–	–	1	600	25	68985	26	69585	5.73
16. Construction and Consultancy	–	–	17	49540	9	3513	26	53053	4.37
17. Trading	1	149	2	798*	21	8893	24	9840	0.81
SUB-TOTAL	2	36149	2	78938	59	88106	82	203193	16.73
18. Others	–	–	1	9800	2	2897	3	12697	1.05
TOTAL	48	500492	43	230358	135	483391	226	1214241	100.00

* Corresponds to data for only one company as data for the other is not available.

units should have a larger equity base compared to service units. An interesting point that emerges from the Table, is that Group I has a larger number of manufacturing units than service units as compared to Group-II. This appears to be true in the case of equity participation also. This may be due to the fact that oil rich Group II countries attract low capital based construction and consultancy industries. A comparision of Islamic countries with other countries shows that there

are a more or less equal number of joint ventures in both the groups in a number of industries. But industries like vegetable oil refining and trading are relatively concentrated in Islamic countries. Out of the total 9 vegetable oil refining and fractionation ventures, 8 are in Group I itself. This may be due to the high priority recently given to the policy of export of edible oil after getting it in processed form, by countries producing coconuts and other vegetable oil sources. In contrast to this, one finds that out of the total 26 projects in construction and consultancy, 17 are in Group II itself. The share of Group II in construction activity turns out to be much higher if we take equity participation as a basis for comparison. Group II accounted for 93.3 per cent of the Indian equity in all IJV in construction activities. There is not even one such project in Group I. Only 9 construction projects are in non-Islamic countries. In Group I, even though engineering units are more in number (15), than the chemicals, dyestuffs and fertilisers (5), in terms of equity investment, the chemical industry exceeds the overall interest in engineering. This fact, however, is basically due to one large fertilizer joint project, as mentioned earlier.

Indian Industrial Houses and Joint Ventures:

It would be of interest to examine the ownership character of the companies promoting joint ventures abroad. This may be useful in checking some hypotheses like whether entrepreneurs are moving out because of lack of opportunities in India, or due to restrictions implied in government policies at home, or if the Indian investors going abroad are making attempts to achieve international status in order to reduce likely risks from unsympathetic policies at home. Are the Indian investors attempting to establish escape routes? It will also help check whether TNCs are using the channel of joint ventures to expand their global operations under the cover of South-South cooperation.

While identifying the major groups of companies which have gone abroad, an attempt has been made to mention those in particular which have equity investments of Rs. 10.00 million and more. Other Groups (i.e. Industrial Houses) are clubbed together and classified as Other Large Houses. There are some small groups of companies which are well

known in India but have yet not come under the MRTP Act. Such groups are taken as the 'Other Groups'. All Government companies are grouped under the category of 'Public Sector'. Joint ventures promoted by companies incorporated in India which are close associates of Western transnational corporations are referred to as TNCs. One joint venture as we noted above, was promoted by a consortium of a cooperative, a private sector company and the Government of India for production of fertilizers in Senegal. There are some others which were promoted by individual companies not falling under any of these categories and by individuals.

Table VI gives the distribution of joint ventures by entrepreneurial categories. If one looks at the number of joint ventures set up by the Indian Industrial Houses, one finds that nearly 40 per cent of the IJV abroad were promoted by the Large Houses i.e. 91 out of 226. Again within the large Houses, Birlas account for the highest number (22 ventures), followed by Tatas, Thapars, and Kirloskars. Thirteen joint ventures were established by the Indian public sector. The above pattern of joint ventures does not take into account the large number of turnkey projects. There is evidence to suggest that Transnational Corporations (TNCs) are also involved in setting up joint ventures originating from India. It has been possible to identify at least 11 such cases. In addition to these there are another 11 cases of joint ventures which have been set up by companies which are close business associates of TNCs (i.e. each having at least 10 per cent of foreign equity). Some of TNC associates also happen to have close business links with Indian Large Industrial Houses.

Apart from the consortium in Senegal which is the single largest Indian joint venture with Rs. 16.96 crores as Indian investment, the 91 joint ventures promoted by Large Industrial Houses account for Rs. 63.91 crores of Indian investment abroad out of a total of Rs. 121.42 crores i.e. 52.6 per cent. If one goes by individual Houses, the Birlas have the largest share in the investments in equity (Rs. 18.46 crores), followed by the Thapars (Rs. 11.93 crores), and Tatas (Rs. 11.72 crores). The public sector comes next with Rs. 11.70 crores i.e., 9.64 per cent. TNCs and their associates account for Rs. 9.9 crores (8.16 per cent) of the Indian equity abroad.

Table - VI

Categorywise Distribution of Indian Investors in Joint Ventures Abroad

(Rs. in '000)

Indian Investor	Countries								%age share
	Group-I		Group-II		Others		Total		
	No.	Equity	No.	Equity	No.	Equity	No.	Equity	of Col. 9
1	2	3	4	5	6	7	8	9	10
Birla	10	81207	3	22291	9	81152	22	184650	15.21
Thapar	3	34536	3	24282	2	60450	8	119268	9.82
Tata	3	74071	3	5810	4	37356	10	117237	9.66
J.K. Singhania	1	1063	-	-	3	51353	4	52416	4.32
Modi	-	-	1	32000	2	8919	3	40919	3.37
L & T	-	-	1	7500	1	11200	2	18700	1.54
Nowrosjee Wadia	1	14794	-	-	-	-	1	14794	1.22
Godrej	3	13354	-	-	1	939	4	14293	1.18
Mafatlal	1	4800	-	-	1	9388	2	14188	1.17
Kirloskar	2	3739	-	-	6	8207	8	11946	0.98
Other Large Houses	4	14496	5	14400	18	21820	27	50716	4.18
Sub-total : Large Houses	28	242060	16	106283	47	290784	91	639127	52.64
Other Groups	4	3451	3	4401	15	41046	22	48898	4.03
Public Sector	1	36000	6	63836	6	17167	13	117003	9.64
Consortium	1	169600	-	-	-	-	1	169600	13.97
TNCs	1	583	1	860	9	45836	11	47279	3.89
All Others	13	48798	17	54978	58	88558	88	192334	15.84
Companies with more than 10% FE (Excluding TNCs)	4	29674	2	3621	5	18520	11	51815	4.27
GRAND TOTAL	48	500492	43	230358	135	483391	226	1214241	100.00

If one takes religion as a basis for categorization of countries, (about which we have already expressed reservations), it would also appear logical to classify the Indian Industrial Houses and investing companies on a similar basis. A hypothesis worth inquiring into would be if the Indian investments in Islamic countries are from companies under the management of Indian Muslims or if in international investments it is the logic of business interests and returns which determines the behaviour of investors and that religion provides no motivating force. Alternatively, from the view-point of host countries, one should assess if the Islamic countries have preferred certain categories of Indian investors or they have paid little regard to the

religious beliefs of the managements of the investing companies. From the data and information available, one does not find any support for the above formulations of special preference or discrimination against, or in favour of, any group based on faith and religion. The Birlas, the Tatas and the Thapars who have largest share in investments in the Islamic countries, are not known to be under the managements of Muslim entrepreneurs. The same holds true of TNCs. One does not even find a weak support for the hypothesis, in the matter of joint ventures, because even the small groups of companies which have gone abroad do not appear to have been chosen on the basis of religion. This conclusion finds further supporting evidence from the fact that Birlas and Tatas have made more investments in poorer Islamic countries (Group I) than in oil exporting Islamic countries of the Gulf. The investments abroad seem to be governed by long term opportunities and the availability of raw materials and markets and not by the religious faith of the investor or the host country. This seems to be a very logical phenomenon as 'business' is 'business' and one cannot allow personal biases or non-business factors to determine the course of investment.

APPENDIX - I

List of Indian Joint Ventures in Islamic Countries

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Equity Value	Indian Equity %age
	1	2	3	4	5	6
GROUP-I						
BANGLADESH						
1.	Mohan Holdings (P) Ltd.	-	Ambee Mohan Exports Ltd.	High fashion garments	837	50.0
INDONESIA						
2.	ASC Engineers & Allied Industries, Ltd.	-	P.T. Ispat Indo	Wire rods, tor steel round bars etc.	9320	20.2
3.	Amar Dye-Chem. Ltd.	Doshi*	P.T. Allied Pacific Dyechem.	Dye stuffs	1504	19.8
4.	Ballarpur Industries Ltd.	Thapar	P.T. Saraswati Bhakti Coated	Coated art paper	20016	49.0
5.	Bharat Commerce & Inds. Ltd.	Birla	P.T. Horizon Syntex	Textile Yarn	6911	42.1
6.	Bharat Steel Tubes Ltd.	Raunaq Singh	-	Di-octyl phathalate	5000	14.0
7.	Bombay Dyeing & Mfg. Co. Ltd.	Nowrosjee Wadia	P.T. Five Star Industries Ltd.	Textile Mill	14794	40.0
8.	Century Spg. & Mfg. Co. Ltd.	Birla	P.T. Elegant Textile Industry	Textile Yarn	3850	49.3
9.	Godrej & Boyce Mfg. Co. Ltd.	Godrej	P.T. Godrej Indonesia	Steel furniture, security equipment	4840	60.0
10.	Gokak Patel Volkart Ltd.	Tata	P.T. Gokak Indonesia	Textile Mill	20500	40.0
11.	Gwalior Rayon Silk Mfg. (Wvg.) Co. Ltd.	Birla	P.T. Indo-Bharat Rayon	Viscose staple fibre	16000	20.0
12.	Indian Plastics Ltd.	Birla	-	Formal de hyde and related products	6300	17.5
13.	Kusum Products Ltd.	Birla	P.T. Kusum Products Indonesia	Solvent extraction, margarine shortening	7710	47.5
14.	Raymond Woollen Mills Ltd.	J.K. Singhania	P.T. Jaykay Files Indonesia	Engineer's steel files & rasps	1063	30.0

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Value	Equity %age
	1	2	3	4	5	6
15.	Shahibag Entrepreneurs (P) Ltd.	-	P.T. Kamaltex	Polyster blended yarn	14142	51.0
16.	Sarabhai M. Chemicals	Sarabhai	P.T. Indosara	Antibiotics & pharmaceutical formulations	4727	76.6
17.	Standard Mills Co. Ltd.	Mafatlal	-	Machinery & equipment for textile & chemical industries	4800	40.0
18.	Tungabhadra Industries Ltd.	Birla	P.T. South Pacific Viscose	Viscose staple fibre	20240	22.0
Malaysia						
19.	Ajit Wire Inds. (P) Ltd.	-	Magnet Wires & Electrical Sdn. Bhd.	Enamelled copper & aluminium wire & electrical accessories	590	53.1
20.	Arjan Khimji Ginning & Pressing (P) Ltd.	-	-	Pumps and valves	644	35.0
21.	Ballarpur Inds. Ltd.	Thapar	Ballarpur Palm Oil Sdn. Bhd.	Palm oil refining	8880	40.0
22.	Berar Oil Industries	Birla	Edible Oil Products (M) Bhd.	Fractionation of palm oil	3880	12.24
23.	Birla Cotton Spg. & Wvg. Mills Ltd.	Birla	India-Malaysia Textiles Bhd.	Synthetic & blended fabrics	8330	40.0
24.	Birla Eastern Ltd.	Birla	Nalin Industries Sdn. Bhd.	Palm Oil processing	4123	19.7
25.	Bombay Auto Ancillary & Invt. (P) Ltd.	-	Auto Ancillary Manufacturers Sdn. Bhd.	Tube valves	735	38.2
26.	Century Spg. & Mfg. Co. Ltd.	Birla	Pan-Century Edible Oil Sdn.Bhd	Palm oil refining and fractionation	3863	20.0
27.	Chemical Construction Co. (P) Ltd.	-	Larkath Chemicos Food Sdn.Bhd.	Palm oil fractionation	1266	14.1

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Equity Value	%age
	1	2	3	4	5	6
28.	Excel Process (P) Ltd.	Excel*	Excel Alugraphics Sdn. Bhd.	Anodised aluminium products	670	30.0
29.	Gajra Gears (P) Ltd.	-	Gajra Gears N.S. Sdn. Bhd.	Automobile gears	11920	71.8
30.	Godrej & Boyce Mfg. Co.(P) Ltd	Godrej	Godrej (Malaysia) Sdn. Bhd.	Steel furniture	3474	75.0
31.	Godrej Soaps Ltd.	Godrej	Rafina Oil Products Sdn. Bhd.	Palm oil refining & fractionation	5040	30.0
32.	Hindustan Safety Glass Works Ltd.	-	Safety Glass Sdn. Bhd.	Automobile glass & safety glass	1150	6.5
33.	Indian Pistons Ltd.	Simpson	Malaysia Pistons Sdn. Bhd.	Pistons & cyclinder liners	1899	49.0
34.	Jg Glass Industries Ltd.	Thapar	J.G. Containers (Malaysia) Sdn. Bhd.	Glass containers of all kinds	5640	29.4
35.	Kirloskar Electric Co. Ltd.	Kirloskar	Kirloskar (Malaysia) Sdn. Bhd.	Trading & Marketing	149	40.0
36.	Kirloskar Electric Co. Ltd.	Kirloskar	Indo-Malaysis Engg. Co. Bhd.	Electric motors, pumps & diesel engines	3590	40.9
37.	Kwality Textile Associates (P) Ltd.	-	Kwality Textiles (Malaysia) Sdn.Bhd.	Cotton & Blended yarn	5380	48.3
38.	L.G. Balakrishnan & Bros. Ltd.	L.G. Balakrisnan*	Elgi Marke Sdn. Bhd.	Chains for bicycles scooters, motor cycles & automobiles	440	48.3
39.	Liberty Chemical Works Overseas (P) Ltd.	-	Liberty Chemicals (Malaysia) Sdn. Bhd.	Photographic & fine chemicals	420	30.0
40.	M.K. Raju Consultants (P) Ltd.	-	Ambedi Engineering Bhd.	Cycle & Industrial chains	1168	21.9
41.	Polyolefins Industaries Ltd.	Mafatlal	Polyolefins Pipe Sdn. Bhd.	H.D. Polyethylene Pipes and fittings	583	24.0
42.	Sarabhai M. Chemicals	Sarabhai	Pharmmalaysia Sdn. Bhd.	Pharmaceutical Products	2870	40.0
43.	Tata Engg. & Locomotive Co. Ltd.	Tata	Tatab Industries Sdn. Bhd.	Assembly & Mfr. of commercial vehicles	5435	29.1
44.	Tata Oil Mills Co. Ltd.	Tata	Unitata Bhd.	Neutralised oil, palm olein, soap etc.	48136	37.4

S.No. Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Value	Equity %age
1	2	3	4	5	6
45. Universal Radiators Ltd.	-	Malaysia radiators Sdn. Bhd.	Raditors, oil coolers and heat exchangers	1678	41.7
46. Zaverchand Gaekwad (P) Ltd.	-	Flexican (Malaysia) Sdn. Bhd.	Metal flexible tubes	385	49.1
Senegal					
47. a) Indain Farmers Fertilisers Co-operative Ltd.	Co-operative	-	Fertilisers and and phosphoric acid	169600	17.7
b) Southern Petro-chemical Industries Corpn. Ltd.	Chidambaram				
c) Government of India					
Sudan					
48. State Bank of India	Public Sector	-	Joint Venture bank		
GROUP - II					
Baharian					
49. Alcon Constructions	-	Halco Constrauction Co.Ltd.	Constructions Job	110	49.0
50. Larson & Toubro Ltd.	Larson & Toubro	-	Project Engg. & Construction Services	7500	75.0
Kuwait					
51. Biecco Lawrie Ltd.	Public Sector	-	Electrical repair shop	147	31.2
52. Vijaya Tanks & Vessels (P) Ltd.	-	-	General contracting activities	2205	49.0

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Value	Equity %age
	1	2	3	4	5	6
Nigeria						
53.	Aluminium Industries Ltd.	Seshasayee	-	Cables & Conductors.	3500	25.0
54.	Asiatic Oxygen Ltd.	Soorajmull Nagarmull	-	Oxygen & acetylene gas	6000	40.0
55.	Ballarpur Industries Ltd.	Thapar	-	Glass bottles & containers.	21677	33.2
56.	Best & Crompton Engg. Ltd.	-	Best & Cromton Engg. (Nigeria) Ltd.	Execution of contracts for transmission lines	1120	40.0
57.	Birla Brothers Pvt. Ltd.	Birla	Nigeria Engg. Works	Light Engg. Goods	9010	40.0
58.	Birla Brothers Pvt. Ltd.	Birla	Pan African consultancy services	consultancy services	213	30.0
59.	Bombay Oxygen Corpn. Ltd.	Ruia	-	Oxygen & Acetylene gas	4200	30.0
60.	Campa Beverages Pvt. Ltd.	-	-	Soft drinks	1400	10.0
61.	Dabur (Dr. S.K. Burman) Pvt. Ltd.	-	-	Pharmaceuticals	1500	49.8
62.	HMT Ltd.	Public Sector	Nigerian Machine Tools Ltd.	Machine Tool Complex	33750	15.0
63.	Hyderabad Asbestos Cement Products Ltd.	Birla	Nigerian Asbestos Inds.Ltd.	Asbestos Cement Products	13068	33.0
64.	Karam Chand Thapar & Bros.	Thapar	Chellco Industries Ltd.	Waste cotton yarn blankets	2065	7.5
65.	MECON (India) Ltd.	Public Sector	-	Consultancy Service	840	60.0
66.	Modipon Ltd.	Modi	-	Polyestar & nylon filament yarn	32000	40.0
67.	Ranbaxy Laboratories Ltd.	-	Ranbaxy Montari (nigeria) Ltd.	Drugs & Pharmaceuticals	840	15.0
68.	State Bank of India	Public Sector	-	Merchant Bank	28000	40.0
69.	Telecommunication Consultants India Ltd.	Public Sector	-	Consultancy Services	560	40.0
70.	Trading Engineers (Intl.) Pvt. Ltd.	-	Trading Engineers Nigeria Ltd.	Manufacture of diesel generating sets drilling of tubewells	5600	40.0

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Value	Equity %age
	1	2	3	4	5	6
Oman						
71.	B.K. Chatterjee	-	Oman Development Consortium	Construction	19600	49.0
72.	Tata Exports Ltd.@	Tata	Intergulf Marketing	Joint Trading Co.	798	50.0
73.	Voltas International Ltd.	Tata	-	Water well drilling & sprinklar irrigation	690	20.0
Saudia Arabia						
74.	Deccan Enterprises Pvt. Ltd.	-	Amiantit Rubber Industries Ltd.	Rubber rings & rubber products	948	20.0
75.	K.M.K. International Ltd.	-	-	Galvanising of steel structurals	1875	25.0
76.	Oberoi Hotels (I) Pvt. Ltd.	Oberoi	Saudi Oberoi Co. Ltd.	Management Co. for managing hotels	600	25.0
77.	Pioneer Latham Overseas Services Pvt. Ltd.	-	-	Tanning & finishing of skins and hides	9800	49.0
78.	Tata Exports Ltd.	Tata	-	Undertake Turnkey Projects	4322	49.0
79.	Western India Erectors Ltd.	-	Arabia Erectors Co. Ltd.	Undertake & Execute Engg. Projects	2400	50.0
U.A.E.						
80.	Ajit India Pvt. Ltd.	-	Nationl Aluminium Co.	Aluminium Architectural products.	405	40.0
81.	B.D.A. Investments & Consultants Pvt. Ltd.	-	Middle East Steel Rolling Mills Pvt. Ltd.	Steel Rolling Mill	2235	35.0
82.	Ballarpur Industries Ltd.	Thapar	Bilt Middle East Pvt. Ltd.	Construction & Trdg.	540	32.6
83.	Balmer Lawrie & Co. Ltd.	Public Sector	-	General Contracting & construction.	539	49.0
84.	Essar Consruction Ltd.	-	-	Civil Engg. & construction	5100	30.0

S.No.	Name of the Indian Party	House Association of Indian Party	Name of the Joint Venture	Field of Collaboration	Indian Equity Value	Indian Equity %age
	1	2	3	4	5	6
85.	Gammon India Ltd.	TNC	Gammon Midest Ltd.	Civil & machanical engg. contracts.	2501	22.8
86.	I.T.C. Ltd.	TNC	-	Consultancy Services for Construction & operation of Hotels.	860	50.0
87.	Phoenix Distributors Pvt. Ltd.	-	Falcon chemicals Ltd.	Sulphuric Acid	100	10.0
88.	Pure Ice Cream co. (1967) Pvt. Ltd.	-	Pure Ice Cream Co. Ltd.	Mfr. & marketing of ice cream	500	12.8
89.	S.V. Shah Construction Services Pvt. Ltd.	-	Alwafe Engineers Ltd.	Construction work	440	40.0
90.	Shri R.M. Goculdas	-	Cylinges Co. Ltd.	Cylinders & tanks for LPG & other gases	800	20.0
91.	Shri Ramanand Sagar	-	Oriental Film Agencies	Marketing of Films	-	-

<u>Source:</u> Indian Investment Centre, Fact-sheets on Indian Joint Ventures

Abroad as on 30th September, 1982 except Col. 2 and 6.

Col. 2 is based on the data available with Corporate Studies Group, Indian Institute of Public Administration, New Delhi.

* Other Small Industrial Groups.

NOTES

1. This has been repeatedly exphasized at the UN and other international fora. The Brandt Commission has referred to it as 'South-South Cooperation'.

2. c.f. The New Encyclopaedia Britannica, Vol. 9 p. 937, 1974.

3. Federation of Indian Chambers of Commerce and Industry, Workshop on Indian Joint Ventures Abroad and Project Exprots: Report, 1982, Part II, p. 6.

WORKING PAPER NO. 7

PRIVATE MANAGEMENTS AND TAKEOVERS
OF
PUBLIC-OWNED COMPANIES
-- Some issues for debate

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During the last few months the shares of DCM and Escorts have been in demand. As a consequence, the share prices of these companies have witnessed a sharp rise. In all, it is believed that the over all size of the shares changing hands is nearly 4 per cent in the case of DCM and around 1 per cent for the Escorts. The continuing pressure for buying up of the shares of the two companies is seen as a clear bid to dislodge the present managements. It is widely believed that the takeover bid has been engineered by some non-resident Indians* who have been offered special fiscal concessions to invest in India.

The Federation of Indian Chambers of Commerce and Industry, the ASSOCHAM and individual representatives of the Indian Big Business have sought Government assurance and protection against the take-over bids of important and large private sector companies by some non-resident Indians. A number of suggestions have been made to ensure that the recently declared fiscal concessions to non-resident Indians do not pose any threat to the present managements of the Indian private sector companies. Alongwith the argument of possible de-stability that the take over bids could lead to, the Indian Industrialists also feel that un-regulated investments by non-resident Indians could result in the national private sector industry falling in the hands of such individuals who had relinquished Indian nationality and chose to stay outside India to make 'dubious fortune' while 'we have been here' to work for the development and progress of the country. It has been said that the non-resident Indians are 'raiders' and their un-scrupulous attempts to dislodge managements in the 'well managed' companies should be thwarted in the overall interest of the Indian industrial development.

As a spokesman of the non-resident Indians, Swaraj Paul, a family member of the Apeejay Group of Indian enterprises, has Bdescribed the Indian industrialists as 'feudal' and the ones who continue to treat the

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* Person of Indian Origin: According to the Finance Bill, 1982, " a person shall be deemed to be of Indian origin if he or either of his parents or any of his grand parents was born in undivided India."

company share holders in a shabby manner. The Indian industrialists are, according to Paul, paying extremely low returns on financial investments. It is argued that with enlightened and scientific management the Indian private industry can demonstrate a far higher level of performance than what the 'feudal' managements have delivered to the Indian economy. An argument being putforth is that though 'we left India for various reasons we are still Indians at heart'. We have struggled against all sorts of odds in the white man dominated world and in the process equipped ourselves with the most modern and sophisticated management techniques. We would like to give the benefit of our knowledge, expertise and resources to our own country with which we continue to have strong family and emotional commitment.

Even a remote prospect of losing management control over large companies could make the present managements shiver. The dislodging could mean a near liquidation of their industrial empires and the power they have exercised to oblige and patronize (i) a host of activities outside the legitimate business activity and (ii) persons and parties who would promote and defend the family interests. The fact that two companies are Delhi based adds special lustre to their economic and political power. The fight between the Shriram and Nandas on one side and Swaraj Paul of the Apeejay Group on the other is an open and a direct one. The issue: the management control of the DCM and the Escorts. The FICCI and the ASSOCHAM are making out as if it was an issue of national honour. The present managements are pleading to the sensitivities of the Indians against the 'raiders' and dubious operators. The non-resident investors are talking of ending 'feudal system'and the need for scientific management. The contenders of power and the present family in power are both seeking public support. It is however, a pity that the view point of the real owners of these private corporate sector entities (the DCM and the Escorts), over which the fight for control has been going on for the last one month, has never been known or discussed. It is only in passing that one hears of the substantial shareholding of public sector financial institutions in these companies. This is mentioned in such a manner and style as if public sector has no option but to support one or the other. The public

sector financial institutions are taken for granted by the present managements.

It appears that the precise shareholding structure of the large private sector companies is not widely known. One feels that for an objective public discussion it is necessary to know the magnitude of the shares held by public sector institutions. It is also necessary to know the pattern of the risk sharing in the large private sector companies.

Let us take the two companies of which the management rights are supposed to be getting traded on the stock exchanges. The DCM had assets of Rs.184.78 crores (1981) with the equity capital base of Rs.20.06 crores. The total number of issued and subscribed equity shares was 80.25 lakhs (each share value: Rs.25.00). There are 17,538 share holders of the company. Of the total equity shares nearly 10-12 lakhs are claimed to be held by the Shri Ram family, friends, associates, family trusts and educational institutions managed by the family and the other family controlled enterprises. In sharp contrast to this public sector financial institutions were holding 34.14 lakhs (i.e. 42.54 per cent of the total equity capital. With only 10 to 12 lakhs shares (out of the 80.25 lakhs shares) the Shri Ram family cannot control the company witout support of the public sector financial institutions. Another fact, well known to students of the corporate sector is that in widely held companies a fairly large part of the share holding is never involved in determining the character of the management. It is only the large share holders who matter. For instance, the top ten share holders of the DCM accounted for 46.54 per cent of the total equity capital. Of the 10 top share holders of the DCM, seven were public sector institutions and the three private share holders were: Madan Mohan Lal Shri Ram Pvt. Ltd. (7.85 lakhs); Shri Ram Scientific and Industrial Research Foundation (1.62 lakhs); and Shri Ram Education Foundation (0.58 lakhs). The single largest share holder was the LIC with 7.95 lakh shares. The above was the picture in June 1980. By December 1982 the share holding of the public sector had actually increased. For instance, the LIC holding was 10.39 lakhs in 1982 as compared to 7.95 lakh shares in 1980. From another angle one can see that 90 per cent of the share holders held only 16 per cent of the equity shares (each having shares worth less than Rs.10,000 only).

There is a high degree of concentration of the shares; and it is also obvious that if non-voting shares are excluded, the public sector would enjoy a clear majority at any Annual General Body meeting. The Shri Rams' family cannot remain in control of the DCM if it does not have the confidence of the Ministry of Finance, who control the public sector financial institutions.

The case of the Escorts is still more clear. The public sector financial institutions held more than majority equity in the Escorts during 1980. What is the present size of public sector holdings? Informed business circles believe that the majority equity shares of the Escorts are still with the public sector institutions. The Nandas are in control of the Escorts because the Government of India has agreed to keep them in power. The Nandas cannot be dislodged even if someone was to acquire twice the number of the Escorts shares as held by the Nandas, provided, however, the Government continues to patronize them.On the other hand, with majority equity under control of the public sector financial institutions, the Government can help anyone (even with or without having a single share of the Escorts) to take over the company management. The Nandas control the Escorts by courtesy of the Ministry of Finance of the Government of India They cannot continue to control Escorts even for a day without the political and official patronage of the Government. Though there are more than 10,000 share holders of the company they cannot determine the character of Escort management.

The present controversy over the DCM and the Escorts should be taken as an opportunity to have a public debate on some basic questions about the (i) real character of the Indian private corporate sector, (ii) the role of Parliament, (iii) the role of regulations by the public sector financial institutions, and (iv) questions relating to the government nominee directors on private sector companies.

How Private is the Indian Private Sector?

We give below an illustrative list of large private sector companies in which the public sector financial institutions held more than 25 per cent of the equity shares. If one goes by the majority concept (i.e. public sector having more than 51 per cent of the shares)

the Andhra Pradesh Paper Mill, and Hastings Mills, now with Bangur House, should indeed be taken as government companies. Similarly, in terms of voting rights, the Central Pulp Mills, the Escorts, Kohinoor Mills, Poysha Industrial, Kirloskar Pneumatic, Hindustan Brown Boveri, Seshasayaee Paper, Andhra Vally Power, Mangalore Chemicals and Gujrat Alkalies and Chemicals were government companies as majority risk capital was with the Indian public sector.

According to the Monopolies and Restrictive Trade Practices Act, 1969, one does not require more than 33.3 per cent of equity shares to qualify for being grouped under a House. If the public sector was also treated as a House (which it is in terms of the economic interests in industry, trade and services) all private sector companies in which the public sector held equity was more than 33.3 per cent should be treated as under public sector control. If, however, one was to recognize the business reality and classify companies according to the controlling interest (i.e. single largest group among the share holders or the criteria of 25 per cent as adopted by the Reserve Bank of India for assessing foreign assets and liabilities), one would have a larger number of the private sector giants included in the government companies or government controlled companies. But since, these are being presently managed by individual families, it may be appropriate to group these companies as under private management by courtesy of the Government. One may choose any label; but the essential character should be known to public and Parliament.

Role of Parliament:

While the public sector holdings are not only large but of even majority nature in a good number of private sector giant companies, Parliament has never been informed of the extent of public stake and the rationality of patronizing the present managements. This indeed is somewhat strange. If the Government can inform Parliament about the Indian Explosives, British India Corporation and Machinery Manufacturers Corporation in which the direct share holding of the Government is less than 10-15 per cent, why should Parliament be kept in total darkness about those companies in which the public sector holdings were in

majority? There is a need to discuss and debate the basic issue and for removing the veil of secrecy on issues of public importance. The need for introduction of some sort of public accountability is only too obvious. There could be a special Board to coordinate the corporate plans of all large sized companies in which public sector holds substantial shares. In fact, such a proposition had come from the Prime Minister of India as far back as February 1969 (at Faridabad).

Regulations by the Financial Institutions:

There are a lot many loopholes in the regulatory mechanism of the Government of India. The Government has expressed helplessness in taking effective measures due to inadequate legal authority. The case in point is the absence of appropriate law to make the industrial licence holders to respect the conditions as visualized at the time of grant of the licences. Why cannot the financial institutions ensure that the spirit of various legislations was respected by all such companies in which the private managements were wholly dependent upon their support for survival? There can be a policy regarding wages and a ceiling on salaries. It is obvious that there was something basically wrong when all adult members of a family get salaries in lakhs of rupees a year, irrespective of their age, qualifications or experience while the major risk capital of the company was provided by the public sector financial institutions. There is need to rationalize the large purchases and sales as also other practices which transfer of benefits to friends, relatives and other associates. A whole lot of reforms needs to be affected. Why can't a beginning be made with all large size compaies (each having assets of at least Rs. 10.0 crores) and the ones in which public sector holdings were the lagest as a block or above 25 per cent in the equity?

Government Nominee Directors:

There is need to rationalise the sytem of Government Directors. Presently, a good many senior civil servants are being appointed on large private sector companies. When a secretary to the Government of India attends Board meetings being presided over by private sector industrialists, there can be a variety of serious implications.

Similarly, when retired civil servants get nominated as Directors, there are possible dangers about which one needs to be fully aware of. Apart from this, what role does one expect the nominee Directors to play in the companies? This is yet not clear.

In Short:

The issues raised here are of a basic nature. The data provided is only illustrative; one is sure to discover a far more serious public sector involvement in the private sector. Also, to be on the safe side and to avoid overstatement of the case we have confined to equity share holding structure. If one were to take note of the Preference and debenture shares, the responsibility of the Government and Parliament in the private sector of India would work out to be far more significant.

An Illustrative List of Large Private Sector Companies in which More than 25% of the Equity is held by Government and Government Sponsored Financial Institutions

Sl. No. Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
1	2	3
AMIN		
1. Jyoti Ltd. (23.9.82)	46.29	35.45
ACC		
2. Associated Cement Co.Ltd.(17.12.82)	37.31	201.70#
ASHOK LEYLAND		
3. Ashok Leyland Ltd.	27.75	236.33@
BANGUR		
4. Andhra Pradesh Paper Mills Ltd. (29.12.82)	59.87	36.05@
5. Shree Digvijay Cement Co.Ltd. (29.6.82)	32.15	45.41@
6. Shreeniwas Cotton Mills Ltd.(28.6.80)	46.97	17.43#
7. Bengal Paper Mills Co.Ltd.(21.7.82)	26.86	17.09@
8. Shree Synthetics Ltd.(30.12.82)	26.86	33.48
9. Fort Gloster Inds. Ltd. (30.9.78)	49.15	9.72@
10. Graphite India Ltd.	41.82	36.03@
11. Hastings Mills Ltd. (6.11.79)	53.76	16.80@
BIRD HEILGERS		
12. Titaghar Paper Mills Co. Ltd.(1979)	45.61	40.78
BIRLA		
13. Kesoram Inds. & Cotton Mills Ltd. (31.5.82)	38.64	74.58
14. Bharat Commerce & Inds.Ltd. (23.4.81)	33.06	31.77@
15. Electric Construction & Equipment Co.Ltd. (7.4.81)	44.31	25.49@
16. India Steamship Co.Ltd.(30.12.82)	30.82	108.55
17. Jayshree Tea & Industries Ltd.(1980)	25.94	53.56
18. Sirpur Paper Mills Ltd.(29.12.79)	42.36	25.39@
19. Texmaco Ltd. (28.4.77)	31.50	42.33#

contd...

Sl. No. Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
1	2	3
20. Zenith Steel Pipes & Inds. Ltd. (3.10.80)	30.80	56.29
BOMBAY SUBURBAN		
21. Bombay Suburban Electric Supply Co. Ltd.(23.9.82)	66.43	108.06
CENTRAL PULP		
23. Central Pulp Mills Ltd.(27.3.80)	53.67	21.19@
DLF		
24. Industrial Cables (I) Ltd.(1979)	46.44	26.02*
ESCORTS		
25. Escorts Ltd.(26.6.80)	54.04	104.50@
ELCON ENGG.		
26. Elecon Engg.Co. Ltd.(29.6.82)	26.33	57.09@
ITC		
27. Tribeni Tissues Ltd.(30.4.82)	26.50	27.81@
28. I.T.C. Ltd. (30.8.79)	28.02	210.18
FCC		
29. Calcutta Electric Supply Corpn. (I) Ltd.(24.9.82)	38.46	273.24
30. Dunlop India Ltd.(30.10.82)	33.74	163.82@
31. Indian Aluminium Co.Ltd.(29.4.80)	27.26	155.61@
32. Metal Box India Ltd. (30.12.82)	28.07	103.39@
33. Simon Carves (I) Ltd.(4.6.82)	25.08	13.02@
GV NAIDU		
34. South India Viscose Ltd.(27.6.79)	26.29	36.31
35. Lakshmi Machine Works Ltd. (31.12.82)	47.02	41.86@
ICI		
36. Indian Explosives Ltd.(17.2.81)	25.19	164.08@
37. Alkali & Chemical Corpn. India Ltd. (19.2.82)	29.54	50.52@
38. Crescent Dyes & Chemicals Ltd. (9.2.82)	40.16	13.82@
INDIA CEMENT		
39. India Cements Ltd. (28.9.79)	48.69	33.04

contd..

Sl. No. Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
1	2	3
KAPADIA		
40. National Rayon Corpn. Ltd.(23.6.82)	35.37	55.86@
41. Kohinoor Mills Co. Ltd. (29.9.80)	71.66	15.82@
42. Ahmedabad & Electricity Co.(20.9.79)	38.34	112.97
HN KAPADIA		
43. Foysha Industrial Co.Ltd. (1980)	50.29	17.00
KAMANI		
44. Kamani Engg. Corpn. Ltd. (16.5.80)	49.13	58.24@
KHATAU		
45. Khatau Makhanji Spg.& Wvg. Co.Ltd. (16.10.79)	31.85	25.48@
KIRLOSKAR		
46. Kirloskar Electric Co.Ltd.(21.1.83)	38.11	46.28@
47. Mysore Kirloskar Ltd. (1980)	41.92	22.88@
48. Kirloskar Pneaumatic Co.Ltd. (1979)	60.42	28.36@
49. Kirloskar Oil Engines Ltd.	30.79	57.33@
KOTHARI G.D.		
50. General Indl. Society Ltd.(3.4.80)	30.13	21.86@
KOTHARI D.C.		
51. Kothari (Madras) Ltd.(22.12.79)	27.57	50.45@
LARSEN & TOUBRO		
52. Larsen & Toubro Ltd. (24.4.81)	34.74	142.21@
53. Hindustan Brown Boveri Ltd.(23.10.80)	63.93	50.50
LALBHAI		
54. Atul Products Ltd.(24.4.80)	34.03	64.44@
55. Arvind Mills Ltd. (23.6.82)	27.40	46.24@
MAHINDRA		
56. Mahindra & Mahindra Ltd. (23.4.82)	44.10	129.50
57. Mahindra Ugine Steel Co. Ltd.(1979)	28.24	86.41@
MODI		
58. Modipon. Ltd. (31.8.77)	27.14	68.11
59. Modi Rubber Ltd.(30.4.82)	39.84	93.78@

contd...

Sl. No. Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
1	2	3
PARRY		
60. EID Parry (India) Ltd.(25.6.82)	28.17	57.55@
61. Herdilla Chemicals Ltd.(16.4.80)	26.92	23.63@
62. Coromandal Feertilizers Ltd. (2.6.82)	36.64	66.32@
PODAR		
63. Podar Mills Ltd. (1979)	45.31	13.41#
RAUNAQ SINGH		
64. Bharat Steel Tubes Ltd.(5.11.82)	42.94	32.96
65. Appollo Tyres Ltd.	31.64	33.92@
RAJASTHAN SPG.		
66. Rajasthan Spg. & Wvg. Mills Co.Ltd.	37.88	25.70@
SPIC		
67. Southern Petro-Chemical Inds. Ltd.(23.12.81)	42.59	168.79@
SHRIYANS PRASAD JAIN		
68. Dhrangadhra Chemicals Works Ltd. (28.9.79)	30.28	29.25
SCINDIA		
69. Scindia Steam Navigation Co.Ltd.(1980)	34.54	205.13
SHRI AMBICA		
70. Shri Ambica Mills Ltd. (9.6.80)	31.87	66.03@
SESHASAYEE		
71. Aluminium Inds. Ltd.(25.9.82)	42.22	34.86
72. Seshasayaee Paper & Boards Ltd. (21.9.79)	56.73	31.71
SHRI RAM		
73. Jay Engineering Works Ltd.(27.8.80)	30.71	28.16@
74. Delhi Cloth & General Mills Co. Ltd.(28.12.82)	42.54	184.78@
SINGHANIA		
75. J.K. Industries Ltd. (28.7.80)	35.31	71.28@
76. Sevenseas Transportation Ltd.(26.5.82)	31.52	17.19

contd...

Sl. No. Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
1	2	3
TATA		
77. Voltas Ltd.(10.2.82)	45.73	126.44@
78. Tata Engg. & Locomotive Co.Ltd. (24.8.82)	44.84	605.23
79. Tata Iron & Steel Co. Ltd. (17.8.82)	42.25	687.52
80. Tata Power Co.Ltd.(23.9.82)	38.40	116.09
81. Tata Hydro-Electric Power Supply Co.Ltd.(24.9.82)	33.92	65.46
82. Ahmedabad Advance Mills Co.(25.5.81)	42.52	40.20
83. Svadeshi Mills Co.Ltd.(8.5.79)	37.14	18.17#
84. Tata Oil Mills Co.Ltd.(1979)	33.89	86.81#
85. Andhra Valley Power Supply Co.Ltd. (24.9.82)	51.18	93.59
THAPAR		
86. Ballarpur Inds. Ltd.(22.12.80)	27.00	124.79@
87. Greaves Cotton & Co.Ltd.(10.12.79)	28.28	49.72@
VISSANJI		
88. Laxmi-Vishnu Textile Mills Ltd. (20.5.80)	28.74	14.70@
VR NAIDU		
89. Madras Aluminium Co.Ltd.(12.6.80)	33.61	31.81@
WALCHAND		
90. Premier Automobiles Co.Ltd.(1980)	25.83	50.66
WALLACE		
91. Bombay Burmah Trading Co. Ltd. (19.3.80)	34.00	20.65@
OTHERS		
92. Mangalore Chemicals & Fertilizers Ltd. (28.7.82)	52.09	81.48@
93. Gujarat Alkalies & Chemicals Ltd. (29.9.82)	50.57	24.94
94. Sayaji Mills Ltd.(1982)	25.93	15.76

contd...

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
95.	Jain Tube Co.Ltd. (29.4.78)	27.05	15.56@
96.	Star Paper Mills Co.Ltd.(26.9.79)	27.88	19.40
97.	Gujarat State Fertilizers Ltd. (31.12.82)	74.12	178.96@

Note:

1. Date in brackets in col.1 given alongwith the name of company indicates the date of the 'Share Distribution Schedule'.
2. Assets data in col.3 : Unless indicated otherwise asset data is for the year 1982; * indicates data for 1979; # for 1980; and @ for 1981.
3. FCC indicates Foreign Controlled Companies.
4. The House Classification is as per the Corporate Information System of the Indian Institute of Public Administration.

WORKING PAPER NO. 8

PUBLIC ACCOUNTABILITY OF DEEMED GOVERNMENT COMPANIES

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1. Under Section 619(B) of the Companies Act, 1956 the companies in which more than 51 per cent of the equity shares are held, singly or jointly, by one or more governments and government companies or corporations have to be treated as 'Deemed Government Companies'[1]. These companies fall within the purview of the Comptroller and Auditor General of India (C&AG). This is to ensure a certain degree of public accountability. For purposes of the audit of accounts the 'Deemed' Government Companies have to be dealt in "the same manner as adopted for Government Companies".[2]

2. The C&AG since 1978, in its Annual Report, has been listing the names of all such companies in which majority equity is held by Central Government and or Central Government Companies and Corporations. According to the C&AG, as "on 31st March 1977 there were 40 companies coming within the provisions of Section 619(B) of the Companies Act 1956.[3] For the year 1982, the number of companies, falling under Section 619(B), were only 53. The full list is given in the Appendix. The Company News and Notes, an official monthly journal of the Department of Company Affairs of the Government of India, reports names of the companies in which auditors are appointed by the Government on the advice of the C&AG. The list, prepared on the basis of the Company News and Notes, includes 115 companies which is more than twice the number of companies, as reported by C&AG. This raises a question: By which information source should one go? The C&AG or the Department of Company Affairs?

3. A related question to this is: What has been happening to the 'audit reports' of the 'deemed' Government companies? Why has the C&AG not been commenting on these as, according to the C&AG's own understanding: "These have to be treated in the same manner as the Government companies". The C&AG gives only the names of the companies covered under the provision, and does not show whether the annual accounts have been received or not. For instance, the main information on 619(B) companies for the year 1982 is that out of the 53 companies falling under Section 619(B), the accounts for 1980-81 were received only from 35! Why have the accounts not been received for rest of the companies?

4. In the recent controversy over the take-over bids it has been admitted by the Government and the company management that majority equity shares in the Escorts are held by the public sector financial institutions. A list of companies in which the public sector institutions held more than 25 per cent of the equity capital had been included in an earlier study of ours.[4] The study showed that there were 12 companies in which the public sector and Government holding was more than 51 per cent. The names of these companies are given in Table-I.

5. Out of the 12 companies listed in the Table, strangely enough, only one company finds a place in the C&AG Report or in the information published by the Company News & Notes. Why have not the auditors been appointed by the Government in these companies in consultation with the C&AG? This becomes particularly relevant because each one of the companies included in the above list is a large one -- the smallest undertaking having assets of Rs.15.82 crores in 1981. It is not a technical and formal question whether the audit has been conducted by the auditors appointed by the C&AG or the ones appointed at the company's Annual General Meeting. One does believe that in both the situations, the auditors would be constituted from among a group of independent professionals. The real difference in this is that if the C&AG does not report on these companies to Parliament, the Public Accounts Committee (PAC) would have no jurisdiction in the matter. The PAC does not concern itself to the spheres not audited by the C&AG. Thus, by keeping some of the large companies, in which public sector holding is in majority, outside the Section 619(B) of the Companies Act 1956, Parliament is being denied the opportunity to ask any questions about the 'Deemed Government Companies'. In short, a large part of the public investments in the private sector remains outside the domain of public accountability.

6. The companies involved are large-sized ones. Therefore, it is inappropriate to ignore the exclusion of these from the purview of the C&AG. An equally important aspect of the exclusion of the companies, from the applicability of the Section 619(B), is that each one of these 12 companies happens to be managed by one or the other large private sector industrial House as registered under the Monopolies & Restrictive

Table - I

An Illustrative List of Companies in which Public Sector Financial Institutions Held more than 51 per cent Equity

S. No.	Name of the Company	Year	% Equity held by Public Sector	Assets (Rs.Crores)
	1	2	3	4
1.	Andhra Pradesh Paper Mills Ltd. (Bangur)	1982	59.87	36.05 (1981)
2.	Hastings Mills Ltd. (Bangur)	1979	53.76	16.80 (1981)
3.	Bombay Suburban Electric Supply Co. Ltd. (Bombay Suburban)	1982	66.43	108.06 (1982)
4.	Central Pulp Mills Ltd. (Central Pulp)	1980	53.67	21.19 (1981)
5.	Escorts Ltd. (Escorts)	1979	54.04	104.50 (1981)
6.	Kohinoor Mills Co. Ltd. (Kapadia)	1980	71.68	15.82 (1981)
7.	Kirloskar Pneumatic Co. Ltd. (Kirloskar)	1979	60.42	28.26 (1981)
8.	Hindustan Brown Boveri Ltd. (Larsen & Toubro)	1980	63.93	50.50 (1982)
9.	Seshasayee Paper & Boards Ltd. (Seshasayee)	1979	56.73	31.71 (1982)
10.	Andhra Valley Power Supply Co. Ltd. (Tata)	1982	51.18	93.59 (1982)
11.	Mangalore Chemicals & Fertilizers Ltd.	1982	52.09	81.48 (1981)
12.	Gujarat State Fertilizers Ltd.	1982	74.12	178.96 (1981)

<u>Trade Practices Act, 1969.</u> One could understand if a 'deemed Government Company' was placed under a group of management professionals with all the autonomy required for efficient management of the enterprise. But, here are cases where the undertakings are continuing as family owned undertakings as if the public sector, the Government or the people of India have no stake or right to ask questions as to how the public assets were being controlled and managed. Viewed from another angle it appears as if certain public assets have been left under private control of some families who find favour with the Government of the time. There are a variety of political implications arising out of this situation.

7. A careful reading of the C&AG reports shows that the list of companies, covered by the C&AG under 619(B), is restricted only to companies in which "Central Government Companies and Corporations had dominant shares". This is a limited interpretation of the Section 619(B). The provisions of the Section 619(B) cover investments in equity held both by Central and State Governments and their corporations and companies. By excluding the state public sector held equity shares the spirit of the legislation is bound to get defeated. It is, probably, because of this, that many of the private managements have been able to avoid public accountability by manipulating the equity holdings in such a manner that the Central or State sector, when accounted individually, does not have 51 per cent or more shares in companies controlled by them. Under the presently adopted practice, if 49 per cent shares in a company are held by the LIC and another 49 per cent are held by a State Industrial Development Corporation, the Company would remain outside the purview of the C&AG -- even though the combined stake of the public sector in the risk capital of the company was as high as 98 per cent! This may be a hypothetical case, but one does find the existence of a good number of such cases where the combined share of the Central and State Public Sectors is more than 51 per cent and none of these is subject to review by the C&AG. An illustrative list of such cases is given in Table II.

8. Some of the instances mentioned in this may happen to be the cases of 'joint sector' enterprises -- the undertakings in which the equity held by a State Industrial Development Corporation was 26 per cent and

Table II

List of Additional Companies with 51 per cent or More Equity Capital Held by Public Sector Financial Institutions

S. No.	Name of the Company	Year	Public Sector	Assets Rs. Lakhs
	1	2	3	4
1.	Bombay Wire Ropes Ltd.	1981	52.17	472.71 (1980)
2.	Banswara Syntex Ltd.	1979	82.15	1090.62 (1981)
3.	Gujarat Aromatics Ltd.	1979	52.02	1093.07 (1980)
4.	Madras Oxygen & Acetyleni Co. Ltd.	1980	57.11	
5.	Nagarjuna Steels Ltd.	1980	68.36	647.70 (1978)
6.	Orient Plywood and Veneering Inds. Ltd.	1980	57.58	
7.	Poysha Industrial Co. Ltd.	1980	52.86	1817.08 (1980)
8.	Refractories Specialities (I) Ltd.	1980	60.00	268.53 (1981)
9.	Siporex India Ltd.	1980	52.72	253.12 (1981)
10.	Shree Diguijaya Woollen Mills Ltd.	1979	50.40	939.38 (1981)
11.	Solid Containers Ltd.	1980	55.60	150.74 (1980)
12.	Uniloids Ltd.	1979	66.13	229.29 (1981)
13.	Vikrant Tyres Ltd.	1980	71.31	4336.51 (1981)
14.	W.S. Insulators (I) Ltd.	1980	64.19	1886.17 (1981)

the private promotors were permitted to hold 25 per cent of the shares. The intention in promoting the joint sector was that since the majority shares would be held by private entrepreneur (the co-promotor) and the State level promotional body the private management could remain assured of stability of the management control. However, most of the State level joint sector enterprises, it is well known, have also been able to involve Central public sector financial institutions. The participation of the public at large has been low. This has led to a situation where in the public sector (Central & State) has majority equity, but companies are able to avoid accountability to the C&AG, Parliament and State Legislatures.

9. The exclusion of State public sector held equity shares, for determining whether the C&AG should be consulted for appointment of Auditors, could have a variety of serious implications. There is need to have a clear policy in this regard. One could, for the sake of argument, take a view that establishment of the 'joint sector' was aimed to promote new entrepreneurs; and the enterprises in the joint sector are small in their operations. Therefore, the size of the assets involved, which remain outside the area of public accountability, could not be very large. Going by this reasoning one may accept that 'joint sector' and state promoted companies should be kept out of the public gaze during the initial period -- or even during the subsequent period. It may appear to be a good, practical and business like approach. The two assumptions in the above argument, however, are: (i) that the private promotor was a new entrepreneur; and (ii) the size of the undertaking was a small one.

10. Will all the State joint sector enterprises satisfy the two criteria? Table III provides an illustrative list of State joint sector enterprises which the State Governments have promoted in collaboration with well known monopoly Houses of the country. From the view point of size of the assets too, these can in no way be regarded as cases of marginal significance. There is, therefore, a need for a policy that would ensure public accountability of the joint sector enterprises, particularly when the combined stake of the Central and State sectors happen to be a substantial one.

Table III

Illustrative List of Joint Sector Companies Promoted by the State Industrial Corporations in Collaboration with Large Industrial Houses

S. No.	Company	House	Assets (Rs.Lakhs)	Year
	1	2	3	4
1.	Bihar Air Products Ltd.	S.Mull Nagar Mull	100.00	1981
2.	Bihar Caustic & Chemicals Ltd.	Birla	240.05	1982
3.	Deccan Fibre Glass Ltd.	Goenka	131.67	1980
4.	Gujarat Aromatics Ltd.	K.Bhai L.Bhai	1093.08	1980
5.	Gujarat Carbon Ltd.	Goenka	894.45	1981
6.	IPIBEL Refractories Ltd.	Tata	679.47	1982
7.	Karnataka Oxygen Ltd.	TCI	180.08	1981
8.	LORCOM Protectives Ltd.	TTK	130.00	1982
9.	Maharashtra Scooters Ltd.	Bajaj	598.81	1982
10.	Mandovi Pellets Ltd.	Chowgule	7192.77	1981
11.	Mysore Petrochemicals Ltd.	Bangur	828.56	1981
12.	Punjab United Pesticides Ltd.	Tata II (Excel Industries)	331.41	1981
13.	Southers Petrochemicals Industries Ltd.	Chidambram	16879.93	1981

Source: Corporate Information System, IIPA, New Delhi.

11. If one goes by the spirit of the Companies Act, 1956,, it is obvious that whenever 51 per cent of the shareholdings is mentioned, the reference is to the majority. It could not be the intention of Parliament or the law makers that 50.1 per cent does not make a majority but 51.0 per cent does. While interpretting the Companies Act, 1956, it appears that the Department of Company Affairs would take a technical position and insist on excluding companies like Gujarat Alkalies & Chemicals in which the public sector holding was 50.57. Similarly, this was the position taken by the Government with regard to Jessop & Company where the Government shareholding was 50.13 per cent.[5] The intent and purpose of the law would be better served if one took a more pragmatic view and sought to extend the scope of public accountability to all such companies in which public sector held 40 per cent and more of equity and it also happened to be the largest shareholder. The logic of the cut off point being at 40 per cent is well recognised and the Foreign Exchange Regulation Act, 1973, is based on this rule. The MRTP Act, however, has 33.3 per cent as the cut off point. The Reserve Bank of India had for long, followed 25 per cent as the cut off point for determining the character of foreign controlled companies. Incidently, for determining if a company was a foreign controlled one or not the cut off point in U.S. is 10 per cent only. The limited point being made here is that one should have adequate public accountability for undertakings for which the single largest part of risk capital has been provided out of the public funds.

12. In India, this approach to public accountability has, however, been flouted by the Government herself. Normally, one should expect that in a democratic set up the Government would enlarge the area of public accountability; but strangely enough, the Government in India has sought to reduce its own role and allow public assets to be managed by private individuals with no public accountability. In matter of Section 619(B) of the Companies Act, 1956, there is no distinction between public sector companies: whether owned by Central or State Governments, the control and ownership being under a statute or under the Companies Act, or the public sector organisation being a promotional, investment or any other type of undertaking. The essence is investments by the

public sector; and hence the need for accountability to Parliament through the C&AG.

13. The C&AG in its Report for the year 1980, (Part I, Introduction: Union Government: Commercial) has the following statement:

> Industrial Finance Corporation of India and Industrial Credit and Investment Corporation of India Limited which were originally notified as institutions owned or controlled by Central Government were subsequently denotified by the Department of Company Affairs. (p.51). (emphasis added).

How and why should the Department of Company Affairs denotify a public financial institution for purposes of the Section 619(B)? It tends to become a mystery. The operational significance of the denotification lies in the unavoidable consequence that some of the companies which would have been covered under the C&AG would no more have the obligation to be treated under the Section 619(B). Table IV shows how with denotification and by keeping some of the public investments outside, the private sector companies get excluded from the obligation to face audit by the C&AG.

14. It is not proper, nor intended to suggest that there was hatching up of a conspiracy by some in Government to promote private interests. This, however, should not restrain the policy makers to openly acknowledge that the denotification would exclude same companies from the net of the public accountability. Which are these companies? It may make an interesting case study in governmental decision making to ask: Who, during 1980, initiated the move to declare that IFCI & ICICI are not government controlled companies? And if the denotification had to be done, why feel shy of retaining the LIC or the IDBI? Why exclude the shares held by Unit Trust of India? These questions need to be probed and discussed. One would have to ask: Can one Government Department change the ownership and control category of an institution which was under control of another administrative Ministry?

15. We have examined some of the available Annual Reports of the companies which, according to the spirit of the Companies Act 1956 should have been brought under Section 619(B). In the case of the Escorts, though the public sector held shares in 1980 were around 54 per cent, the company Annual Reports for 1977, 1979 or 1980 make no mention

Table IV

Illustrative List of Companies Where Public Sector Financial Institutions held more than 51 per cent Share Holding Excluding the Institutions Denotified

S. No.	Company	Total Public Sector Holding(%)	Public Sector Share Holding excluding IFCI & ICICI (%)	Public Sector Share Holding excluding UTI, ICICI, IFCI
	1	2	3	4
1.	Andhra Valley Power Supply Co. Ltd.	51.18	51.18	36.58
2.	Andhra Pradesh Paper Mills Ltd.	59.87	59.73	52.57
3.	Bombay Suburban Electric Supply Co. Ltd.	66.43	66.43	48.20
4.	Mangalore Chemicals & Fertilizers Ltd.	52.09	46.96	45.91
5.	Gujarat State Fertilizers Co. Ltd.	74.12	74.12	72.36
6.	Kohinoor Mills Co. Ltd.	71.68	71.68	71.68
7.	Hindustan Brown Boveri Ltd.	63.93	63.93	46.87
8.	Seshasayee Paper & Boards Ltd.	56.73	56.73	46.91
9.	Hasting Mills Ltd.	53.76	53.76	53.76
10.	Central Pulp Mills Ltd.	53.67	27.00	27.00
11.	Escorts Ltd.	54.04	54.04	48.02

of the need to appoint auditors by the C&AG. Infact, the company does not even mention about the need to appoint the auditors by adopting a special resolution as required under Section 224(A) of the Companies Act 1956, which is necessary if the public sector holdings were more than 25 per cent. Hindustan Brown Boveri, Seshasayee Paper, Andhra Vally Power, and Mangalore Chemicals adopted a special resolution (as if the shares held by public sector were less than 51 per cent but more than 25 per cent) for appointment of auditors. There are, of course, instances where in the managements inform the shareholders that a request has been made to the Government to appoint auditors under Section 619(B). The Maharashtra Elecktrosmelt Ltd. is a case in point.

16. The need to have public accountability for all substantial public investments is only too obvious. For this, one could go by a certain percentage and fix any one cut off point. It could be 25, 33 or 40 per cent. In addition to this, on operational considerations, one could confine C&AG audit for only large sized companies, say, each with assets of Rs.10 crores and more. Parliament could also introduce the element of size of the public stake by making it obligatory to have C&AG audit for companies in which more than Rs.1.0 crore had been invested in the Paid-up-Capital. One could evolve an appropriate method with the basic objective of ensuring that private managements of large companies are not allowed to play about with the public resources without any public responsibility or accountability -- which seems to be the case today.

17. A popular belief in Government has been that whenever public sector investments were large or substantial the Government and public sector financial institutions should appoint institutional directors on the company Boards. While for long it has been the practice to have nominee directors, it is time that one asked seriously if this institution has served much purpose. What role have the nominee directors been playing? How are they selected? What does one expect them to watch? To put it conversely, the nominee directors are a 'watch dog' for the institution or are they supposed to be officers in Government who would ensure quicker disposal of the company files requiring government approval? Has the appointment of Government Directors helped to restrain the private Boards to violate other

regulatory laws and public norms? Is the institution of nominee directors seen, in the business circles, as an advantage or a handicap? Will not any large private sector company like to have, if possible, the Finance Ministers on their Board? Why do private companies have retired army generals and senior civil servants on their Boards? These are questions which need to be examined dispassionately.

19. Another question with regard to public accountability is: what purpose does one wish to achieve by enlarging the coverage of public accountability. Is the intention to curb possibilities of organised frauds on public at large and the Government? Or, the purpose of public accountability is merely to enable some questions being raised in Parliament and enhance restrictions on company managements? Such limited and narrow view cannot be the purpose of public accountability. The real objective of the public accountability would be to coordinate investments in an overall framework of planned socio-economic development. The objective could also be to restrict anti-social activities by the private managements and promotion of healthy management practices. These are issues of public importance and need an open debate.

APPENDIX

List of Companies Reported by the C&AG in its Annual Report 1982 to be covered under Section 619(B) of the Companies Act 1956

S.NO.	NAME OF THE COMPANY
1.	Ashok Paper Mills Ltd.
2.	Andhra Pradesh Industrial and Technical Consultancy Organisation Ltd.
3.	Agricultural Finance Corporation Ltd.
4.	Bihar Industrial and Technical Consultancy Organisation Ltd.
5.	Banarhat Tea Co. Ltd.
6.	Coromandal Agro Products and Oil Ltd.
7.	Delta Paper Mills Ltd.
8.	Derco Cooling Coils Ltd.
9.	Hydrocarbons India Ltd. (Sub of ONGC)
10.	Hoolungoorea Tea Co Ltd.
11.	Indian Fine Blanks Ltd.
12.	Industrial Reconstruction Corporation of India Ltd.
13.	Industrial and Technical Consultancy Organisation of Tamil Nadu Ltd.
14.	J & K Industrial & Technical Consultancy Organisation Ltd.
15.	Kerala Industrial and Technical Consultancy Organisation Ltd.
16.	Madan Industries Ltd.
17.	Nagarjuna Steels Ltd.
18.	Neiveli Ceramics and Refractories Ltd.
19.	Orissa Industrial and Technical Consultancy Organisation Ltd.
20.	North Eastern Industrial and Technical Consultancy Organisation Ltd.
21.	Punjab Tractors Ltd.
22.	Shriram Pistons and Rings Ltd.
23.	Siporex India Ltd.
24.	Braith Waite Burn and Jessop Construction Co. Ltd.
25.	Mim Tea Co Ltd.
26.	Industrial Credit and Investment Corpn. of India Ltd.
27.	Universal Conveyor Beltings Ltd.

Contd...

S.NO.	NAME OF THE COMPANY
28.	U.P. Industrial Consultants Ltd.
29.	Vikrant Tyres Ltd.
30.	Wagon India Ltd.
31.	West Bengal Consultancy Organisation Ltd.
32.	Allied International Products Ltd.
33.	Accumeasures Punjab Ltd.
34.	Associated Glass Industries Ltd.
35.	Brindavan Alloys Ltd.
36.	Bengal Assam Steamship Co Ltd.
37.	Excellsior Plants Corporations Ltd.
38.	Gangawati Sugars Ltd.
39.	Gayday Iron and Steel Co. Ltd.
40.	Kohinoor Mills Co Ltd.
41.	Mandovi Pellets Ltd.
42.	Nalanda Ceramics and Industries Ltd.
43.	Orissa Fertilizers and Chemicals Ltd.
44.	Pandayan Hotels Ltd.
45.	Protein Products of India Ltd.
46.	Shyam Properties Ltd.
47.	Textile Processing Corporation of India Ltd.
48.	Vidyut Steels Ltd.
49.	West India Chemicals Ltd.
50.	Webel Electro Ceramics Ltd.
51.	North Bengal Dolomite Ltd.
52.	Dishergarh Power Supply Co. Ltd.
53.	Vayudoot (P) Ltd.

NOTES

(1) INDIA, Report of the Comptroller and Auditor General, 1980 (Commercial : Part I), p. iii.

(2) Section 619(2) of the Companies Act, 1956, which is applicable to government companies as defined under Section 619(B) provides that:

> "The auditor of a Government Company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor-General of India".

> Further the Section 619(3) states that:

> "The Comptroller and Auditor General shall have power
>
> (a) to direct the manner in which the company's accounts shall be audited by the auditor appointed in pursuance of sub-section (2) and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;
>
> (b) To conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; ...."

(3) Ibid., p. 50.

(4) Goyal S.K., "Private Managements and Takeovers of Public Owned Companies -- Some Issues for Debate", Working Paper No. 7, May 1983. Corporate Studies Group, Indian Institute of Public Administration, New Delhi.

(5) Morarka, R.R., "PAC -- How to Make it More Effective", Public Accounts Committee (Parliament of India), 1921-1971, Golden Jubilee Souvenir, Lok Sabha Secretariat, 1971, p.41.

WORKING PAPER NO. 9

REGULATING MULTINATIONAL MONOPOLIES IN INDIA*

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The Background

INDIAN policy towards Multinational Corporations (MNCs) has undergone many changes during the post-Independence period. Starting from an attitude which was described as excessively liberal during the late fifties and till the mid-sixties,[1] the policy became stricter and selective after the late sixties.[2] However, if the number of foreign collaborations approved is any guide, the policy towards MNCs has again become extremely liberal in the post-1980 period.[3] Not only this, the official arguments in favour of foreign capital have changed over this period. Initially, foreign capital was seen to be helpful in supplementing domestic savings and providing technology. It was found indispensible for import substitution during the Second and Third Five Year Plan. Finally now, it is required to boost our exports and to upgrade technology.[4]

As a consequence of the above policy particularly in the fifties and early sixties, MMCs were able to establish a hold over a wide variety of goods and services ranging from consumer goods such as toothpaste, dry batteries, toilet soaps, safety matches, cigarattes, etc., to producer goods including an entire range of engineering products - electrical as well as non-electrical and ligh as well as heavy electronics; chemicals; drugs; pesticides; plantations and rubber products; and core sector industries such as aluminium, automobiles etc.

Though the share of foreign controlled enterprises (FCEs) in the total turnover of the private corporate sector in 1972-73 has been estimated to be about 30 per cent (25 per cent in the total corporate sector including the public sector), they accounted for almost half of the total profits of the corporate sector (46 per cent in the corporate sector including the public sector).[5] This was because the MNCs confine themselves to select highly profitable industries and dominate them. Apart from this, MNCs are believed to have a number of monopolistic advantages and indulge in restrictive trade practices.[6] Since the main

motive of the MNCs is global profit maximisation, which sometimes may not be compatible with the policy objectives of the host government; the regulation of their activities becomes necessay. This paper attempts to examine the nature and efficacy of the regulatory mechanism in India, with particular emphasis on Indian anti-monopoly legislation to regulate multinational monopolies.[7]

Section II discusses the need for regulation of foreign controlled enterprises (FCEs). Section III briefly sketches some problems involved in the identification of FCEs in India and their implications for regulation. Section IV describes corporate regulatory legislations in India and their applicablity to the FCEs. Section V examines the efficacy of Indian anti-monopoly legislation in the regulation of the Multinational Monopolies. Section VI draws some conclusions from the analysis presented.

Need for Regulation

The need for regulation of MNCs arises from two facts:

First, MNC's are profit-motivated commercial entities with a number of monopolistic advantages.[8] - such as innovative ability technoligical skill, patent protection, internationally reputed brand names, consumer loyalty for their products, and the ability to differentiate the products, undertake production at the most economic level and exploit the advantages of international division of labour. These monopolistic advantages give them market power in the areas in which they specialise and enable them to indulge in monopolistic and/or restrictive trade practices including that of discouraging the local enterprise from entry into competition, restricting output and selling at higher than reasonable price.

Secondly, operations of MNCs have certan implications for the blance of payment of the host country - in terms of the servicing burden. Not only this, MNC affiliates in the host countries have a build-in tendency to import their requirements of capital goods, spare

parts and raw materials as much as possible probably in order to provide a maket to other affiliates of the same multination chain. The import intensity of MNC affiliates has been found to be higher than that of their domestic counterparts in various empirical studies.[9]

TABLE : DISTRIBUTION OF MRTP COMPANIES

Sl.No.	Sub-Sections*	Total Companies Registered as on 31.12.1979	Companies Registered under FERA also in 1975	(3) as a % of (2)
	(1)	(2)	(3)	(4)
1.	a(i)	36	11	30.56
2.	a(ii)	961	116	12.07
3.	b(i)	36	13	36.11
4.	b(ii)	12	-	0.00
5.	a(i)(ii)	92	20	21.74
6.	a(i)b(i)	10	3	30.00
7.	a(i)b(ii)	1	-	0.00
8.	a(ii)b(i)	22	8	36.36
9.	a(ii)b(ii)	5	2	40.00
10.	b(i)(ii)	2	-	0.00
11.	a(i)(ii)/b(i)(ii)	1	1	100.00
12.	a(ii)b(i)(ii)	-	-	0.00
13.	a(i)(ii)/b(i)(ii)	1	-	0.00
14.	a(i)(ii)/b(i)	20	9	45.00
	Sub-Total Dominant Undertakings (Sl Nos 3,4,5,6,7,8, 9,10,11,12,13,14)	110	36	32.73
	Grand Total	1199	183	15.26

Note: * Sub-section a(i) applies to large undertakings which independently control assets of not less than Rs. 20 crore; a(ii) applies to undertakings which along with other undertakings of the same group (GICU) control assets of not less than Rs. 20 crore; b(i) and b(ii) apply to undertakings which are dominant in some product line either independently or as GICU respectively. A company, however, might be attracting more than one sub-section, e.g., a 'large' undertaking which is 'dominant' also Serial Nos. 5 onwards indicate respective combinations of the sub-sections.

Source: Corporate Information System, IIPA, New Delhi.

In view of the above, almost every country has regulatory policy for the MNCs though its intensity varies in accordance with the host governments social priorities.[10] The problem of regulation has been complex enough to attract the attention of the United Nations too.[11]

MNCs in India: Identification

In India three sets of definitions of foreign enterprises are used, for different purposes. Under the Companies Act, 1956, 'foreign companies' are defined as companies which are incorporated outside the country but have a place of business in India (which are often referred as foreign branches). A 'foreign subsidiary' is defined as a company in which more than 50 per cent of the equity capital is held by a single foreign company. The second definition is the one used by the Reserve Bank of India for its studies on finances of joint stock companies. According to this definition an Indian company becomes a 'foreign controlled rupee company' (FCRC) if 25 per cent or more of its equity is held abroad by a single company and its nominees or 40 per cent is held in one country. Finally, for regulatory purposes all Indian companies with more than 40 per cent direct foreign equity have to register themselves under the Foreign Exchange Regulaion Act, 1973, and are called FERA companies. The multiplicity of definitions has made difficult a precise estimate of the magnitude of foreign controlled enterprise in India.

For example, in 1972-73 when FERA was enacted, leaving aside banking, financial, transport companies and non-profit organisations, the RBI identified 537 companies as FCRCs and another 197 as foreign branches.[12] In the next year, the number of companies registered under FERA, including branches, was 877; while according to the Department of Company Affairs, which follows the Companies Act definition, there were about 500 foreign companies (branches) and 183 foreign subsidiaries working in the country.[13]

None of these definitions takes into account the fact that a widely-held joint stock company can be controlled with as low as 5-10 per cent equity holding. Indeed, in Canada, a company is considered foreign controlled if 5 per cent or more share capital is held abroad. The definition in the USA is 10 per cent or more. A large part of the FCE in India, therefore, remains outside the official lists of foreign companies. For purpose of regulaion, only companies with more than 40

per cent direct foreign equity (and hence to be reistered under the FERA) are treated as foreign and the rest are treated on par with the fuly owned Indian companies. A large number of companies, which have even majority foreign ownership (through indirect foreign equity), are also treated as Indian companies.

The criterion in FERA is not only an arbitary one because control can be exercised with a much lesser equity, but because it helps disguis the foreign control. Under the Act, all companies with more than 40 per cent foreign equity are being asked to dilute it to 40 per cent and thereby qualify as Indian companies. (Higher foreign equity of upto 74 per cent is being allowed only to tea companies, or companies in core sectors or using sophisticated technology or predominantly exported-oriented companies. Dilution can be performed and is being pursued in most of the cases through issue of fresh equity to the resident shareholders -- thus leaving the absolute foreign equity unaffected (even multiplied by way of bonus shares). This enables the company to augment its resources and get itself identified as an 'Indian' company But actual control can still remain with the foreign shareholder in view of his being the single largest shareholder. In addition, the foreign shareholders very often protect their reghts by suitable clauses in the 'Articles of Association'. With the dilution proposal the government even provides them with liberal licences to expand and/or diversity their activities.[14] Thus for most foreign companies, FERA has provided an opportunity to become apparently 'Indian' and to expand.

The foreign companies, therefore, readily agreed to dilute their foreign equity to 40 per cent. It is evident that 72 companies diluted their foreign equity even before specific FERA directives were issued to them.[15] As a result of the enforcement of FERA, the number of companies identified as foreign has come down to 186 in 1981.[16] This number will be reduced further and only a few plantation companies and others in the core sector will remain under ambit of FERA. Thus the scope of regulation of MNCs is being curtailed by the Indian regulatory legislation itself. But at least one positive aspect of the FERA is that, under it, most foreign branches will have to convert themselves into Indian companies and it will become possible to arrest the alleged tax-free outflow of profits in the form of 'head-office expenses' etc.

Regulatory Legislation in India

In India, specific regulation of MNCs has not yet received much attention in policy-making. FERA is the only legislation specific to companies with foreign equity. The extent to which it regulaes the foreign companies has alreadt been examined above. Among the other legislative measures enacted to regulate the corporate sector, in general, are the industrial (Development and Regulation) Act, 1951. I(D&R)A; the Capital Issues Control Act, 1955; the Companies Act, 1956; and the Monopolies & Restrictive Trade Practice Act, 1969 (MRTPA).

The I(D&R)A makes it obligatory for a firm to obtan licence from the government before setting up an industrial unit or effecting expansion of the existing unit in any of the scheduled industries involving investment of more than a prescribed limit. The objective of industrial licensing is to allocate investible resources according to the plan priorities. It is supposed to ensure the appropriateness of the proposed undertaking or the expansion of an existing unit, in terms of the demand supply situation in the country, size, location, technology, etc. Generally non-FERA and non-MRTP and MRTP companies but (no discrimination is made against the foreign controlled companies in the non-FERA group. Thus, as far as the regulation of MNCs is concerned, the I(D&R)A is a weak as the FERA. Also, there does not seem to be a rigorous enforcement of the provisions of licensing under the I(D&R)A. In a preliminary survey of he industrial capacities of the private corporate sector, it has been found that the installed capacity, in a large number of cases exceed the licensed capacity. It has also been noted that "the lagest number of cases, and particularly those having more than 25 per cent excess installed capacity, are of multinational corporations."[17]

The Capital Issues Control Act, 1955, applies to issue of securities (shares, debentures) by corporate bodies. A company is obliged to take consent from the Controller of Capital Issues before issuing any security. However, for fresh equity of a value less than Rs. 25 lakhs no consent is needed and of a value less than Rs. 50 lakh only an acknowledgement is necessary. This Act could have been used to regulate the foreign equity proportion in the Indian companies as well

as the issue of bonus shares by these companies to their foreign parent companies, just preceding the FERA diluation. But this Act has taken the form of more or less a legislation. The Controller of Capital Issues has no discretionary authority. He has only to ensure tha the applicants do not violate a few well-published criteria. And, so far, 99 per cent of the cases have been approved without any objection.[18]

The Companies Act, 1956 deals with statutory obligations of the joint stock companies.

> The basic objectives underlying the (Companies) law were to provide a minimum standard of good behaviour and business honesty in company promotion and management; due recognition of the legitimate interest of share-holders and creditors and of the duty of management not to prejudice or jeopardise those interest; provision for greater and effective control over and voice in the management for shareholders; a fair and true disclosure of the affairs of companies in their annual published balance sheet and profit and loss account;...[19]

The Companies Act does not discriminate among the companies incorporated in India on the basis of nationality of control. Moreover, there does not seem to be arigorous enforcement of the provision of the Act. For instance according to the provisions of the Act, all companies have to give "detailed quantitative information" regarding the licensed capacity, installed capacity, and actual production "in respect of each class of goods manufactured". Most of the drug companies are continuously avoiding the provision of this information.[20]

The MRTPA, 1969 was enacted in response to the recommendations of the Monopolies Inquiry Commission which submitted its report in 1965. This Act expects to ensure that the "operation of the economic system does not result in the concentration of economic power to the common detriment, for the control of monopolies and restrictive trade practices, and for matters connected therewith". Thus the MRTPA is the Indian counterpart of the Monopolies Act, and the Fair Trade Practices Act of the UK and the Anti-Trust Laws in the US. Under it, any

undertaking which either independenly or along with its interconnected undertakings, controls assets of a value not less than Rs. 20 crores has to register with the government. Also, the independent undertakings or groups of inter-connected undertakings (GICUs) which control not less than one-third of total goods or services sold in the country and have assets of not less than Rs. one crore, have to register under the Act as dominant undertakings (DU). The undertakings register under the MRTPA are required to take permission from the governemnt before effecting any substantial expansion, establishing a new undertaking or attempting a merger or amalgamation with any other undertaing, under different section of the Act.

MRTPA and Multinational Monopolies

The specific objective of the MRTPA is to crub the concentration of economic power in private hands which is considered to be "to the common detriment" and to check monopolistic and restrictive trade practices by the dominant undertakings. By economic power it meant the power exercisable by the business concerns because of their control over productive assets in a wide variety of goods and services. Monopolistic trade practices were defined as those which tend unresonably to reduce competition, and thus maintain prices at unreasonable levels or limit technical development or capital investment. Restrictive trade practices are practices which affect competition and thus affect prices or flow of supplies. MNCs have a number of monopolistic advantages as mentioned above. They enjoy tremendous monopoly power because of their control over technology and capital and their global network.[21] Therefore, any legislation intending to control monopolistic tendencies has also to be aimed at regulating the activities of multinational monopolies.

Indeed, a number of multinational companies are registered under the MRTP Act.[22] The exact number of foreign controlled companies which have registered themselves under the MRTPA is not known, again due to definitional controversy. Even if we treat as 'foreign' only those companies that come under the FERA when it was enforced in 1975, 183 of

them were registered under the MRTP as on December 31, 1979. Some of these concerns, however have diluted their foreign equity upto 40 per cent and hence are no longer FERA (ex-FERA). Three types of FERA (or-FERA) companies come under the MRTPA):

(a) Foreign subsidiaries or other companies with more than 40 per cent foreign equity which either independnetly or along with their subsidiaries or associate companies, control assets of the value of Rs. 20 crore. These companies are registered either as large independent undertakings (LIU) or GICU. For example Hindustan Lever, Dunlop, Ashok Leyland, General Electric, and so on. The subsidiaries or associates of these companies need not be registered under FERA if they do not have any foreign direct equity. Some of these companies have diluted their foreign equity as per the FERA directives, retaining the character of their management in tact. For instance ITC, WIMCO, Philips, Metal Box, Madura Coats, and so on.

(b) There are companies which have been promoted by MNCs in collaboration with one of the Indian houses or vice versa, and hence are registered under the MRTPA as companies interconnected with these Indian business houses - e.g., Hoechst Pharmaceuticals (Mafatlal)™; Associated Bearings (Tata); Kirloskar Cummins (Kirloskar) and so on.

(c) There are companies which are foreign controlled and on account of their controlling more than a-third of any product line have registered as Dominant Undertakins - e.g., Otis-Elevators, Motor Industries Corporation Etc.

Many of these companies are registered under two or more of the sub-sectuon of this Act simultaneously - e.g., Dunlop, WIMCO, each as both GICU and Dominant Undertaking Table 1 shows distribution of FERA (and ex-FERA) companies which are registered under different sub-sections of the MRTPA. And also the total number of companies registered under different sub-sections or combinations thereof. This table shows

that the biggest concentration of FERA companies is in the dominant sub-groups as, out of 110 companies registered as DUs (in various combinations of sub sections), 36 companies were identified under FERA also, that is, a 32.73 per cent representation while the representation in total MRTP companies is 15.26 per cent only.

It has been pointed out that the impact of the MRTPA on concentration of economic power has been negligible.[23] This has been ascribed to the lacunae from which the MRTPA suffers.[24]

For instance the Act does not provide for an instrument wich could examine the issue of interconnection. The Act expects that the individual companies themselves would register on their own. it is natural that larger business houses will try to minimise the registration of companies controlled by them. It has been shown that the top 20 houses, alone, have managed to keep 512 companies outside the scope of MRTP which were identified as controlled by them by the Dutt Committee (IILPIC).[25] Among these are companies with foreign connection also. For instance, Goodlass Nerolac Paints which was shown as a foreign subsidiary related to Tata house in a Department of Company Affairs study.[26] has not yet registered itself under the MRTPa. The administration of the Act in this respect was so week that some of the companies which had registered under the MRTPA as connected to GICUs "applied for deregistraion later when they realised that proving "interconnection' was not going to be easy."[27]

Secondly, the product classification of the government for determining whether a company is dominant, is highly aggregative. For instance, it has about 350 items only, while the classification used by the Monopolies Inquiry Commission (MIC) Report had around 1,300 items.[28] Thus many companies (particularly foreign) which registered as DU on the basis of the MIC information applied for deregistration after the issue of this product classification.[29] Notable beneficiaries of this product classificaion are foreign companies such as Colgate Palmolive (which controls roughly half of the tortal toothpaste market), Cadbury India

(controlling 75-80 per cent of the Chocolate market.[80] HMM (a market leader in malted food, white beverage etc). Hindustan Lever wich according to an ORG Survey control 43.5 per cent of detergent cakes and 79.7 per cent of popular soaps market, has also not been registered as DU.[31]

Apart from the aggregative product classification, the criterion of dominanace -viz. one-third of the total market - seems quite liberal. Even in Western countries, where the markets for products are more competitive than in India, a less than one-third market share is the criterion for determining dominance. For instance, under the Fair Trading Act of 1973 (UK) It is 25 per cent and it is only 15 per cent under the Anti-Trust Laws of the USA.[32]

However, the above are general limitations of the MRTPA. One particular limitaion of the Act, regarding regulation of multinational monopolies, is that it fails to take into account the interconnections of companies operating in India, through non-resident undertakings. The idea behind registering all interconnected undertakings, together, as GICU is that the behaviour of these interconnected undertakings cannot be expected to be competitive. It will be collusive (anti-competitive) aiming at maximisation of the total 'group's' profits. An MNC operates in different countries as a centrally controlled enterprise with global profit maximisation as its objective. Different affiliates of MNCs are either horizontally or vertically diversified, or show conglomerate characteristics. Some times the same MNC operates in a country with more than one affiliate. It is difficult to expect that the different affiliates of an MNC operaing in a country would compete among themselves, since their ultimate aim is maximisation of total profits rather than individual profits. Therefore, they will synchronise their activities and share the market accordingly. The objective behind the fragmentation of market and operation under different garbs may be interalia to: (i) avoid registration as dominant undertaking under the acts such as the MRTPA, (ii) manipulate licensing if expansion of the existing undertakings is not possible. Thus the character of the affiliates of our MNC is much the same as that of the companies of local GICUs. The only difference is that these undertakings are interconnected through an outside body i.e., the parent MNC. This is even worse because

it often results in the affiliates indulging in the manipulation of transfer prices which involves the drain of foreign exchange resources. In fact, the nature of relationship and control over the affiliates by the parent (MNC) is stronger than in the case of local GICUs, since equity holding is not the only instrument of acquiring control in this framework. The parent (MNC) control technology which is a proprietary asset, and many overt and covert restrictive clauses are inserted at the time of technology transfer to the recipient affiliate.[33] If it is considered necessary to identify GICUs having total assets of more than a certain limit, it is imperative to define interconnections so as to include outside 'connections' also, and to ensure that undertakings connected in this way, get themselves registered. Otherwise it will be very difficult, if not impossible, to detect and crub anti-competitive practices by these undertakings.

A large number of giant MNCs have indeed more than one affiliate in India The lack of explicit interconnection among these affiliates within the country has enabled many of them to avoid registration under the MRTPA as interconnected undertakings. A few examples are given below:

The giant internation tobacco monopoly British American Tobacco (BAT) operates in India through more than one affiliate. According to 1975 informaion, its tobacco division had contrilling interest in three companies operating in India, viz., ITC (44 per cent equity), Indian Leaf Tobacco Development -- Isle of Man (72 per cent), and Vazir Sultan Tobacco (VST) (26 per cent shareholding.)[34] Local assets of Indian Leaf Tobacco Development were later acquired by ITC which has now diluted its foreign equity to 40 per cent as per FERA regulation.[35] BAT, through its wholly owned subsidiary Wiggins Teape also controls Tribeni Tissues and Molins Indian through its associate company Molins. Though ITC is registered under MRTPA as a dominant undertaking with its interconnected undertakings in India, the MRTPA has failed to take into account ITC's inter-connections with VST, Tribeni Tissues and Molins India.[36] This is more serious in view of their joint hold over the market for cigarettes, with ITC contrilling 37 per cent and VST another 24 per cent and therefore the total hold of BAT of 61 per cent of the Indian market for cigarettes.[37] Not only this, BAT's empire in India is a fine example of

vertical diversification. The erstwhile Indian Leaf Tobacco, and now ITC deals with leaf tobacco; Molins manufacturers cigarette making machinery; Tribeni Tissues produced cigarattee paper; and finally ITC produces cigarettes and markets them.

The case of Hoechst A G is also illustrative. This German giant has contrlling interests in a number of Indian companies - e.g. Hoechst Pharmaceuticals (HPL), Hoechst Dyes and Chemicals (DCL), Polyolefins Industries (PIL), Colour-Chem (CCL), British paints (BPL), Rousell Pharmaceuticals and Uhde India. hoechst AG has direct equity in the first four companies while British paints is controlled through Hoechst's UK subsidiary; Berger, Jenson, Nicholson. In Roussell pharmaceuticals it has direct equity though Roussel Uclaf, which was later acquired by Hoechst Ag as well as indirect equity though Hoechst Pharmaceuticals. Uhde India is held through Hoechst's engineering subsidiary Freidrich Uhde Gmbh in which Hoechst's shar is 77 per cent.[38] Hoechst AG had interest in one more paint manufacturing concern in India, viz., Jenson & Nicholson. But it turned out to be a losing venture owning to its inability to compete with the local firms. Hence Hoechst disinvested its shareholding in Jenson & Nicholson.[39] Since HDCL, PIL and BPL were promoted by the Hoechst AG in collaboration with the house of Mafatlal house HPL is a closely held company in the sense that 50 per cent of its equity is held with Hoechst AG and another 48 per cent with United Breweries. Hence HPL along with its subsidiary Roussell Pharmaceuticals, is registered under the MRTPA as undertakings interconnected to other concerns of United Breweries. Colour-Chem on account of its interconnections with undertakings of the monopoly house Khatau, is registered under the MRTPA. It has recently represented however that it is not a part of the Khatau house. Uhde India is not yet registered under the MRTPA. Since three of Hoechst's affiliates, viz., HDCL, CCI, PIL deal in Dyes and Chemicals, their products are together sold by HDCL alone under the common 'Hoechst' tradename.

A similar case is that of Siemens AG which apart from a large number of foreign collaboration agreements has interests in four Indian concerns - viz. Siemens India, Cable Corporation of India, Bharat Bijlee, and Polydor. The first if registered under the MRTPA as an indepndent undertaking. Cable Corporation is registered under the Act

as an undertaking connected with the house of Khatau. Polydor is an affiliate of Siemens AG's joint venture POLYGRAM Gmbh with Philips. Siemens India, Cable Corporation and Bharat Bijlee are in the electrical engineering industry and hence, till recently Siemens India was the sole selling agent for all the three companies to avoid any competition.

One classic example of illusive competition between diferent arms of a multinational monopoly is the American Corporation, Rank Organisation. Two Indian companies, viz, Bush India and Murphy India are affiliated to Rank Bush Murphy, a company of Rank Organisation. It is interesting to note that both the Indian affiliates produce almost the same range of products and one of them uses one part of the parent company's name, i.e., Bush, as a trade name while the other affiliate uses the other part, i.e., Murphy. Murphy now controls 27 per cent of orgaised sector market of consumer electronics and Bush another 16 per cent, making Rank organisation's combined hold over the market 43 per cent.[40]

Many more examples can be given showing failure of the MRTPA to take note of outside interconnections. An illustrative list has been provided in Annexure. The length of the Annexure suggest that multinational monopolies are not a matter which can be ignored by any anti-monopoly legislation. It seems that the problem of interconnections of the companies through non-resident undertakings was never though of by the formulators of the MRTPA.[41] Still, it is not difficult to accommodate most of these interconnections under even the existing definitions. But under even the existing definitions. But under the law, the issue of interconnection, is decided by the company itself, which would naturaly try to register only the very explicit interconnections.

Conclusions

In the present papre, we have examined the efficacy of the corporate regulatory mechanism with respect to foreign capital in India, with particular emphasis on the efficacy of the Indian anti-monopoly legislation in regulatng multinational monopolies. It has been observed that, in India, foreign controlled enterprise has been defined

very vaguely and hence its identification for purpose of regulation becomes a difficult task. The FERA definition is arbitrary and leaves a large part of foreign controlled enterprise unidentified. The licensing under the I(D&R). A follows the FERA definition and again suffers from the above limitation Thus there is a need to define foreign enterprise on the basis of control.

The Indian anti-monopoly legislation, too, applies only to a part of the multinational monopolies. We have illustrated with the help of afew examples that many MNCs operate in the country through more than one affiliate. Though these affiliates are interconnected, through the parent MNC and are, therefore, non-comparative, they have avoided registration under the MRTPA as interconnected undertakings. In the absence of even their identification, proper regulation of these multinational monopolies becomes a formidable task.

Annexure

AN ILLUSTRATIVE ACCOUNT OF MNCS WITH MORE THAN ONE AFFILIATE IN INDIA

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
American Cynamid, USA					
1 Cynamid India	X	X	a(ii)	K Bhai L Bhai	
2 Colfax Labs	-	-			
American Home Products, USA					
1 Geoffrey Manners Ltd	X	-			
2 John Wyeth Brothers	X	-			
3 Wyeth Laboratories	X	-			
4 Wyeth India Ltd	X	-			
Bayer, AG, FRG					
1 Bayer India	X	-			
2 Colour Chem	-	X	a(i)(ii)	Khatau	See Note-3
Boehringer Ingelheimm, FRG					
1 Citurgia Bio-chemicals Ltd	-	-			
2 Stundia Bio-chemicals	X	-			
3 German Remedies Ltd					
Hawker Siddley Group Ltd, UK					
1 Crompton Greaves Ltd	-	X	a(i)(ii)	Thaper	through
2 Kirloskar Electric Co Ltd	-	X	a(i)(ii)	Kirloskar	Crompton

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
Catalaries Et Trefileries de Cossonary, SA, Switzerland					
1 Andhra Mech & Elect Inds Ltd	X	-			
2 Mysore Electrical Industries Ltd	-	-			
Cadbury Schweppes Ltd, UK					
1 Kissan Products Ltd	X	X	a(ii)	United Brewers	
2 Cadbury India Ltd	X	-			
Cheseborough Pond's Inc, USA					
1 Ponds India Ltd	X	-			
2 Indicarb Ltd	-	-			
Ciba Geigy S A, Switz					
1 Ciba of India Ltd	X	X	a(i)(ii)	ICI	
2 Suhrid Geigy Ltd	X	X	a(ii)	Sarabhai	now amalgamated with Ambala Sarabhai Enterprises
3 Suhrid Geigy Trading Ltd	-	X	a(ii)	-do-	
4 Cibatul Ltd	-	X	a(ii)	K Bhai L Bhai	-do-
Coats Paton Ltd, UK					
1 Madura Coats Ltd	X	X	a(i)		
2 Needle Industries Ltd	X	-			
Courtaulds Ltd, UK					
1 Courtaulds (I) Pvt Ltd	X	-		-	through International Paints - a subsidiary of Courtaulds
2 Shalimar Paints Ltd	X	-		-	

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Regist-ered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
Daimler-Benz, FRG					
1 Tata Engineering & Locomotive Co Ltd.	-	X	a(i)		
2 Bajaj Tempo Ltd	-	-			
Dunlop Holdings Ltd, UK					
1 Dunlop India Ltd	X	X	a(i)(ii)/ b(i)(ii)	Dunlop	through Dunlop Ltd
2 India Tyres Ltd	-	-			
3 India Tyres & Rubber Co (I) P LTd	X	X	a(ii)/b(ii)	Dunlop	
4 Wheels India Ltd	X	X	a(ii)	TVS	
British American Tobacco (BAT), UK					
1 ITC LTd	X	X	a(i)(ii)	ITC	
2 Vazir Sultan Tobacco Co LTd	X	-			through Wiggins Geape Ltd (subsidiary)
3 Tribeni Tissues Ltd	X	-			through Molins Ltd (as associate)
4 Molins India Ltd	X	-			
5 Indian Leaf Tobacco Development Corporation Isle of Man Ltd	X	X	a(i)(ii)	ITC	taken over by ITC Ltd
Envirotech Corporation USA					
1 Eimco-KCP Ltd	X	-			
2 Eimco-Elecon Ltd	-	X	a(ii)	V Ramakrishna	

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
General Electro Co, UK					
1 Associated Electric Industries (services) ltd	–	X	a(ii)	GEC	
2 FF Chrestein & Co Ltd	X	–			
3 English Electric Co of India Ltd	X	X	a(ii)	GEC	
4 General Electric Co of India Ltd	X	X	a(i)(ii)	GEC	
5 General Electric Co of India (Exports) ltd	–	X	a(ii)	GEC	
6 Genelec Ltd	–	X	a(ii)	GEC	
7 Electric Lamp Manufactureres (I) (P) Ltd	X	X	a(ii)	Philips	See Note 4
8 Hind Lamps Ltd	X	X	a(ii)	Bajaj	
9 Indian Transformers Ltd	–	X	a(ii)	GeC	
10 Avery India Ltd	X	–			
General Electric, USA					
1 Elpro International Ltd	X	–			
2 International General Electric Co (India) Ltd	X	–			
3 Mysore Lamp Works LTd	X	–			
Glaxo Holdings Ltd, UK					
1 Biological Evans Ltd	–	–			
2 Glaxo Labs India Ltd	X	X	a(i)		

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
Grent Lakes Carbon Corpn USA					
1 Graphite India LTd	-	X	b(i)		
2 India Carbon Ltd	-	X	b(i)		
Grand All Ltd, UK					
1 Clive Street Nominees P Ltd	X	-			
2 Cox & Kings (I) Ltd	X	-			
3 Malcha Properties Ltd	X	-			
Guest Keen & Nettlefolds, UK					
1 Mahindra Sintered Products	X	X	a(i)		Mahindra though Firth Cleveland Ltd (a subsidiary) and Mahindra
2 Simmonds Marshall Ltd	X	-			- do -
3 R.H. Windsor (I) Ltd	X	X	a(ii)/b(ii)		through GKW Engineering & Const Services Ltd
4 Shardlow India LTd	-	-			though GKW Forging Ltd
5 Guest Keen Williams LTd	X	X	a(i)(ii)/b(i)	GKW	
6 Sankey Wheels LTd	-	X	a(ii)/b(i)	GKW	
7 GKW Overseas Trading Ltd	X	X	a(ii)	GKW	
Hoechst A G, FRG					
1 Hoechst Pharmaceuticals Ltd	X	X	a(ii)	United Breweries	
2 Roussell Pharmaceuticals	-	X	a(ii)	United Breweries	
3 Hoechst Dyes and Chemicals	-	X	a(ii)	Mafatlal	
4 Polyolefins Ltd	-	X	a(i)(ii)	-do-	

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
5 Colour Chem Ltd	-	X	a(i)(ii)	Khatau	See Note 3
6 British Paints Ltd	X	X	a(ii)	Mafatlal	through British subsidiary Berger, Jenson & Nicholson Ltd.
7 Friedrich Uhde Gmbh (Uhde India Ltd)	X	-			through Friedrish Uhde Gmbh (a subsidiary of Hoechst)
Lead Industries Group Ltd, UK					
1 Eyre Smelting Pvt Ltd	X	-			
2 Goodlass Nerolac Paints Ltd	X	-			
3 Waldies Ltd	X	X	b(i)		
Philips, Holland					
1 Philips India (Peicco Electric)	X	X	a(i)(ii)/ b(i)	Philips	
2 Duphar Interfran Ltd	X	-			
3 Electric Lamp Manufacturer (India) Limited	X	X	a(ii)	Philips	See Note 4
4 Hind Lamps Ltd	X	X	a(ii)	Bajaj	See Note 5
5 Polydor India Ltd	X	-			
Pilkington Brothers Ltd, UK					
1 Hindustan Pilkington Glass Works Ltd	X	X	a(ii)	NA	through Fibreglass Ltd (a subsidiary)
2 Fibreglass Pilkington Ltd	X	-			
3 Somany Pilkington	-		a(i)	Somany	

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Regist-ered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
Rank Bush Murphy Ltd, USA					
1 Murphy India Ltd	X	–			
2 Bush India Ltd	X	–			
Hoffman La Roche Switzerland					
1 Roche Products (India) Ltd	X	–			
2 Angle French Drug House (Eastern) Ltd	X	–			
Sandoz AG, Switzerland					
1 Sandoz India Ltd	X	–			
2 Wander Ltd	–	–			
Siemens AG, FRG					
1 Siemens India LTd	X	X	a(i)		
2 Cable Corporation of India	–	X	a(ii)	Khatau	
3 Bharat Bijlee Ltd	–	–			
4 Polydor India Ltd	X	–			See Note 5
Spirax-Sarco Engineering LTd UK					
1 Drayton Greaves LTd	X	X	a(ii)	Thaper	
2 Spirax Marshall Ltd	X	–			
Tube Investments Ltd, UK					
1 Aluminium Hindustan (P) KLtd	X	–			through subsidiary Venesta Foils Ltd nationalised
2 India Foils LTd	X	–			
3 Sen Raleith Ltd	–				
4 TI & M Sales Ltd	X	X	a(ii)	TI	

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
5 Tube Investment of India ad its subsidiary/associates	X	X	a(ii)	TI	
Unicorn Industries, UK					
1 Carborundum Universal Ltd	X	X	a(ii)		Murugappa Chettiar
2 L M Van Moppes Diamond Tools India Ltd.	X	X	a(ii)		Simpson
Unilever Industries, UK					
1 Camball & Co (South India) Ltd	X	X	a(ii)	Hindustan Lever	
2 Hindustan Lever Ltd	X	X	a(i)(ii)	- do -	
3 Indexport Ltd	-	X	a(ii)	- do -	
4 Lintas Ltd	-	-			
5 Lipton India Ltd	X	X	a(ii)	- do -	
6 Brindavan Properties	X	X	a(ii)	- do -	
7 Birds Eye Food (I) P Ltd	-	-			
	Liquidated				
Union Carbide Corporation, USA					
1 Union Carbide India India Ltd	X	X	a(i)(ii)/b(i)	though Bakelite Xylointe Ltd	
2 Bakelite Hylam Ltd	X	-		though Amchem Products Inc.	
3 Agromore Ltd	-	-			

Multinational Corporation and Indian Affiliates	Whether FERA 1975(1)	Whether Registered under MRTPA as on 31.12.79 (2)	Sub-Section of MRTPA, if any	Inter-Connection If Any - Name of GICU	Remarks
Waner Lambert Co. USA					
1 Parke Davis Ltd	X	X			
2 Warner Hindustan Ltd	X	-		through Parks Davis (A subsidiary of Warner Lambert)	

Source: Compiled from Dun & Bradstreet (1978) varicus, Gray and Loved (1975) stopford et al ed (1980) Indo-German Chamber of Commerce (1981) American Embassy in India 1978), Corporate Studies, IIPA (1979)

Notes:

1. (x) indicates that the undertaking had registered itself under the FERA, initially. It migh have, however, diluted its foreign equity afterwards. (-) indicates that the undertaking has never been registered under the FERA.

2. (x) indicates that the undertaking is registered under the METP Act, as on 31.12.79. If the undertaking is registered under the MRTPA, the relevant sub-section and interconnection, if any, are shown in the second last and third last columns, respectively.

3. Colour-Chem Ltd has financial equity participation from two West German Firms, viz, Bayer AG, and Hoechst. AG. The total German share is 32.8 per cent, Indian interconnection is with Khataus but the company was representing to the Government that it is not a part of Khatau group.

4. Electric Lamp Manufacturers (India) Pvt Ltd (ELMI) is a joint venture of 5 MNCs, viz, General Electric Co Ltd, Associated Electrical Industries (Rugby) Ltd., Crompton Parkinson Ltd, Associated Electricals (Woolwich) Ltd, and Midland Bank Executor & Trustee Co on

Contd....

behalf of Philips, Holland. Share of Philips is 35.35 per cent. The Technical management of ELMI rests with Philips. All shareholders get share of output of ELMI in the proportion of their shareholding, for marketing. Recently there was a move by the first four shareholders to transfer their shareholdings to Philips (India) in order to comply with the FERA directive. Hind Lamps Ltd is a joint venture of ELMI and Bajaj Electricals Ltd. This company again is under technical control of Philips. A significant proportion of the output (17.66 per cent) of Hind Lamps is also sold by Philips (India) Ltd under their brand name. Till recently the Dutch Chairman and Managing Director of Philips (India) Ltd was also the chairman of ELMI and was on the Board of Directors of Hind Lamps Ltd, Polydor of India Ltd and Duphar Interfran Ltd. See for details, the Monopolies and Restrictive Trade Practices Commission (1975).

5. Polydor India Ltd is affiliated to Polygram Gmbh which is a joint venture of Siemens AG and Philips, Holland. See Note 4 also.

NOTES

[The author is grateful of S.K.Goyal, V.Kesavan and K.S. Chalapati Rao for useful discussions, and to Stanlay A Kochanek, Kamal Nayan Kabra and Kamal Mitra Chenoy for their comments on an earlier draft. However, they are in no way responsibly for any remaining errors.]

1. See Kidron (1965)

2. See Agarwal (1979).

3. Number of foreign collaborations approved shot up from 277 in 1976 to 526 in 1980. See Economic Times, February 9, 1982.

4. See Goyal (1981) for details.

5. This estimate is based on RBI: 'Finances of Foreign Branches and Foreign Controlled Rupee Companies' published in various issues of RBI Bulletin. RBI however, has, discontinued the publication of this very important source of statistics. See Chandra (1977).

6. See OECD (1977) for many instances.

7. In this paper, the term MNC is used in its usual sense, as an enterprise which has diversified its activities across the national boundaries but is centrally controled. By Foreign Controlled Enterprise (FCE) we refer to an affiliate of an MNC which may be its branch, subsidiary, or a company registered under the Foreign Exchange Regulation Act, or a company in which the parent MNC exercise control either through direct or indirect control either through direct or indirect minority equity participation and/or through restrictive clauses in the technical collaboration agreements.

   The term 'multinational monopoly' is used for an MNC which controls a wide range of goods and services (or a large volume of productive assets) or a substantial part of one product line through one or more of its affiliates in the host country and hence enjoys economic power. This definition is comparable to the one adopted by the Monopoly and Restrictive Trade Practices Act, 1969, to refer to the local monopolies.

8. Most of the theories of foreign direct investment explain the phenomenon in terms of monopolistic advantages held by the investing firms. For an extensive review of the theories see Hood & Young (1979).

9. See, for instance, Cohen (1975); Subrahmanian and Pillai (1979).

10. For a survey of national legislations, relating to MNCs in different countries, see: UNCTC (1978); also see Canenblay. (1981).

11. For instance, in July 1972, a group of Eminent Persons was appointed by the UN Economic and Social Council (UNESC) to study the role of MNCs and their impact on the developing countries. According to the recommendations of the Group, the Commission on Transnational Corporation (CTC) and the Centre for Transnational Corporation (CTC) were established by the UNESC in 1975. The former has been assigned to formulate a code of conduct for MNC, the host and home governments. See CTC Reporter December 1976.

12. RBI Bulletin, July 1975.

13. FERA and the Department of Company Affairs lists include companies in services sectors like shipping, airline, banking, liaison offices, consultancy firms, and non-profit organisations etc, which are not included in the RBI figures.

14. See Chaudhuri (1979); for a critique of FERA, see Ibid, Goyal (1978), Kumar (1980) and EPW, edit: 'Expansion through FERA' December 3, 1977.

15. Minister of Finace in response to Lok Sabha Question No: 4921, dated September 18, 1981.

16. Excluding a few companies where permission under Section 29(2) (a) of FERA has been granted on 'non-repatriation' of capital and income basis. Minister of State for Finance in response to a Rajya Sabha Unstarred Question No: 1364 dated May 5, 1981.

17. See Goyal (1980) cf: Rao and Ranganathan (1980).

18. Sengupta, N.K, in a lecture delivered at the Institute of Chartered Accountants, New Delhi, November 23, 1981.

19. See India, Ministry of Law, Justice and Company Affairs (1978) p 2.

20. See Kumar & Chenoy (1981), for details.

21. Monopoly power refers to the ability to influence price and quantity suppled by the company. In fact, all the three cases which have so far been referred to the MRTP Commission for investigation into the monopolistic trade practices were of MNCs, viz, Colgat Palmolive (India); Cadbury Fry (India); and Coca Cola Export Corporation. See India, Ministry of Law, Justice & Company Affairs (1978), p 262.

22. For applicability o the MRTP Act to the foreign companies see Goyal (1979a).

23. Goyal (1979), UNCTAD (1978), Paranjape (1981), Khurana (1981).

24. See India, Ministry of Law, Justice & Company Affairs (1978) and also the references cited in the previous footnote.

25. Goyal (1979).

26. Dutta & Lall (1970).

27. UNCTAD (1978).

28. Ibid.

29. Parajape (1981).

30. Economic Times, September 9, 1981.

31. Business India, July 21, 1981, p 39.

32. India, Ministry of Law, Justice & Company Affairs (1978), p 238.

33. For a survey of restrictive clauses in foreign.collaboration agreements see Reserve Bank of India (1974).

34. UNCTAD (1978a), p 40.

35. ITC's Prospectus, 1981.

36. Some reflections of VST's connection with ITC can be had from the source of management. Accroding to VST's 1979. Annual Report, out of 49 high income employees (receiving more than Rs 36,000 per annum) including senior managers etc, 18 were with ITC earlier.

37. UNCTAD (1978a), Table 9, pp 31-32.

38. Gray and Love, eds, (1975).

39. Economic Times, August 26, 1981.

40. Business India, January 18-31, 1982.

41. For instance, the MIC Report which formed the basis of the MRTPA does not have a mention of this aspect nor has the Report of the Joint Committee on the MRTP Bill. See India, Government (1965) and India, Parliament (1969).

WORKING PAPER NO. 10

PUBLIC POLICY, MARRIS MODEL AND CORPORATE GROWTH IN INDIA

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I. INTRODUCTION

The neo-classical theory of firm has no adequate explanation of why firms grow, and what, if any thing, limits the rate of growth a firm can achieve in any period (Marris & Mueller, 1980). The first 'economic'[1] theory of the growth of firm was formulated by Penrose (1958). Penross emphasized that at any given time, there is a limit to the growth which the existing management team can achieve. And that increasing the size of the management team is also not likely to help in efficient expansion in the immediate future. In the long run, however, there is no optimal size and it is possible for firms to grow endlessly. Marris in his seminal work the Economic Theory of Managerial Capitalism (1964) provided a very comprehensive theory of growth of firm. Marris asserts that a managerial firm maximises rate of growth subject to not only internal (managerial) constraints, as visualized by Penrose (1958), but also external limits to growth posed by the capital market. The subsequent empirical literature too, has confined to the specification of these constraints among the determinant of corporate growth.[2] In the situation of state assuming the role of interventionist power in the economic activity, as it does today in most economies, public policy is also expected to influence the corporate growth to a great deal. It can be expected that a corporation will frame its policies for growth not only in view of managerial and financial constraints as emphasized in the theory but also in consonance with the instruments of public policy it has to cope with. There has, however, not been much effort to seek empirical verification of these expectations. The objective of this paper is to verify the broader framework of corporate growth as provided by Marris with the explicit specification of some of these public policy variables.

Section II briefly discusses major instruments of public policy which might influence corporate growth. Section III frames the hypotheses in the light of the theoretical framework. Section IV discusses data and variables used in the empirical exercise. Section V presents statistical results and Section VI summarises major conclusions.

II. PUBLIC POLICY & CORPORATE GROWTH

The Government of India has evolved over time a number of policy instruments in the post-independence period to guide the pace and pattern of industrial development in accordance with the plan objectives. These constituted fiscal incentives for undertaking investment and some regulatory legislations. Among the fiscal incentives, the major ones are: central capital subsidy in order to promote development of industrially backward areas, subsidised credit and even risk capital financing through development banks, subsidised infrastructural facilities in the industrial estates and various tax incentives, like investment allowance, accelerated depreciation in the first year of investment, and tax holiday for new investments.

In the present framework however, the tax incentives are more relevant because only fast growing and profitable companies can realize them[3]. It is possible for a company even to completely escape from paying any tax on its profits by suitable tax planning. For instance Tata Engineering, Reliance Textiles made profits to the tunes of Rs.990 million and Rs.626 million respectively in the last four years but had declared no tax liability. It is evident that these companies claimed entire profits as allowances for investment and accelerated depreciation etc. Needless to say, therefore, tax incentives encourage a profitable company to invest and grow rather than pay taxes.

Among the regulatory legislations the important ones are the Industries (Development & Regulation) Act, 1951 (IDRA) and the Monopolies & Restrictive Trade Practices Act, 1969 (MRTPA)[4]. The IDRA makes it obligatory for any concern desirous of undertaking investment of more than Rs.50 million (uptill recently Rs.30 million) in plant and machinery in any of the scheduled industries, obtaining a prior government approval (called Industrial Licence). Through the industrial licensing under the IDRA, the government intends to, among other things, channel available investible resources during the plan according to the priorities, reduce regional disparities and curb monopolies. The MRTPA is expected to ensure that the "operation of the economic system does not result in the concentration of economic power to the common detriment, for the control of monopolies and restrictive trade

practices." Operationally, its scope extends to two types of companies: (i) Those which on their own or along with their interconnected undertakings control assets of not less than Rs.200 million, and (ii) those which on their own or along with their interconnected undertakings hold at least one-third share in their line of production and at the same time control assets of not less than Rs.10 million. Companies under the purview of the Act (MRTP companies) are required to take permission from the government before effecting any substantial expansion, establishing a new undertaking or attempting a merger or amalgamation with any other undertaking. Also, the MRTP companies are normally permitted to expand their activities further only in some selected capital and technology intensive sectors often termed as 'core' sectors (Indian Investment Centre, 1982).

Both of these regulations therefore, are supposed to create a blockade in the way of free corporate expansion by making it necessary to obtain governmental sanction for the companies under their coverage. However, both have been controversial as far as their efficacy is concerned. The business organisations have held them, particularly the MRTPA, largely responsible for all failures in the industrial sphere by restricting growth[5]. On the other hand, individual researchers and even government appointed committees have pointed out a number of lacunae in their formulation and administration and wide-spread violations which render them ineffective. For instance, the industrial licensing rules under the IDRA were found to be widely violated in the reports of the Industrial Licensing Policy Inquiry Committee (1969) and the Corporate Studies Group (1983). Similarly, a High Powered Expert Committee on Companies & MRTP Acts (1978) and individual scholars have pointed out a number of flaws from which the MRTPA suffered and have stressed that it has hardly been able to have any impact on the concentration of economic power in some business houses - the main purpose of its enactment (Goyal, 1979; Paranjape, 1981).

For the purpose of this paper the MRTPA is more relevant because it is company specific. The IDRA is essentially a product specific regulation provided that volume of investment in plant and machinery exceeds the specified limit. This would indeed be the case for all the

sample companies selected for this paper which, as we shall see later, are the largest private sector companies. Furthermore, IDRA is implicit in the MRTPA as non-MRTP companies get a preference over the MRTP companies for the purposes of licensing under the IDRA (Indian Investment Centre, 1982).

III. **HYPOTHESES:**

It is beyond the scope of the present paper to discuss Marris model in detail. We shall, instead, confine ourselves to a brief and rather simplified outline of it which enables us to frame hypotheses for the empirical study.

Marris' model is applicable to a managerially controlled firm (in the form of a joint stock company) with managers having no or little, if at all, stake in its ownership. Another implicit assumption is that its stock is traded in the stock market. The firm in such cases would be greared to pursue goals which maximise utility of its managers. The latter would normally include salaries, status and power enjoyed by the managers. All of these managerial utilities grow with the growth of the firm. Hence the firm maximises rate of growth.

At low rates of growth, profitability (which represents utility of owners) also increases with growth. But with rise in the rate, growth becomes increasing costly and profitability falls. This happens partly because of the fact that to overcome demand constraints in its original markets, the firm has to grow through diversification and new product introductions. A sustained programme of successful product introductions entails considerable diversion of resources to activities like R & D, market research and sales promotion. And partly profitability declines due to managerial constraint or diseconomies, as originally formulated by Penrose (1958) and often referred to as Penross Effect. Thus the growth-profitability relation looks like an inverted 'U' and is sometimes referrd to as demand for growth curve. The owners' utility is maximised at a point where profitability is the highest whereas that of managers, where growth rate is maximum. However, the managers are forced to operate with certain minimum levels of profitability and dividends beyond which stock market value of the firm

may fall down to a level which would activate take-over raiders and hence the very existence of the management is threatened. This is what is referred to as capital market constraint in the Marris model and reflects the supply of growth curve.

The capital market constraint is a subjective constraint depending upon the management's perception of safe values of profitability, debt-equity and retention ratios and was exogenous in earlier versions of the Marris Model. But in later refinements it was specified as endogenous variable (Marris & Mueller, 1980). Thus the model becomes a simultaneous equation system. However, most empirical studies have treated the capital market constraint as exogenous and have confined to estimation of single equations (for instance Siddharthan & Lall, 1982). Siddharthan (1982) made an attempt to estimate a two equation version for a cross section of Indian companies. None of the explanatory variables in the supply of growth or capital market constraint equation, however, turned out to be significant. He argued that in a cross section, supply curve is not expected to shift. Thus in the present exercise also, we shall stick to a single equation model containing mainly predetermined variables affecting the demand of growth. In addition to the explanatory variables hypothesized in the theory, we shall introduce two policy-oriented variables: one relating to tax (fiscal) incentives for growth and the other to the MRTPA -- both affecting the demand of growth as discussed later.

A few hypotheses can be formulated on the basis of above. Profits generate internal resources for growth. Thus a positive relationship can be hypothesized betwen profitability and growth. The managerial theories and various empirical studies have observed a non-linear (inverted U-shaped) relationship (Hay & Marris, 1979; Siddharthan & Lall, 1982). Hence we shall test a quadratic form.

Since the Penrose's formulation of the growth of the firm, the initial size of the firm has been an important variable among the determinants of the growth. There is a case for expecting a non-linear relationship between size and growth -- to certain extent size is an advantage to growth beyond which managerial diseconomies constrain

growth. In most of the empirical studies, however, an inverse relationship has been found (Hymer & Pashigian, 1962; Marris & Wood, 1971; Hay & Marris, 1979). Here again we shall test both linear and quadratic versions.

The rate of successful diversification (or new product introduction) is the most important variable in Marris' model which determines the demand for growth function. In cross-sections this variable, apparently, is not easy to specify in view of availability of data and also because of subjectivity that would be involved in determining whether the introduction was a successful one. Siddharthan and Lall (1982) while explaining the growth of transnational corporations have used the proportion of foreign affiliates sales to total company sales i.e. the extent of multinationality, and R & D and Advertisement expenditure intensities as proxy of the rate of successful diversification. Siddharthan (1982) uses proportion of exports in total sales as a proxy in addition to R & D and advertisement intensities. Marris, underlines the fact that sustaining successful diversification would require capital investments on innovations, advertising, promotional and other market activities and hence would result in a higher capital-output ratio (Marris, 1964). In a cross-section sample, however, capital output ratio may vary because of factors like choice of technique, in addition to diversification. But since data on a more satisfactory proxy of diversification is not available we shall use capital-output ratio, expecting a positive relationship between it and growth.

Both of the public policy variables are expected to influence the growth of demand curve. The tax incentives make diversification (growth) more attractive for the firm by reducing i'v effective cost to the firm. Hence a positive relationship between extent of concessions availed and growth is hypothesized. The MRTPA in view of its declared objectives of <u>inter-alia</u> curbing concentration of economic power can be expected to affect growth of the companies coming under its purview by blocking the way of diversification. Hence on a <u>priori</u> grounds we expect a negative relationship between MRTPA and growth.

IV. DATA & VARIABLES:

To verify the above hypotheses, we have made use of data contained in a computer data file prepared by the Corporate Studies Group. The file contained several key financial variables for a ten-year period on each of the 289 top non-government corporate giants in 1980 quoted at the stock-exchanges (for more details see Corporate Studies Group, 1983 a). From these companies, however, companies in transport, finance, trading, electricity and tea plantation were dropped. Thus the final sample consisted of 237 companies.

The measurement used for the dependent and independent.variables as. well as their justification are as follows:

GROW: Growth of the firm has been measured in different studies with respect to different variables viz. Sales Revenue, Fixed Assets (Capital Stock), Total Assets (Gross Capital) and sometimes employment. Each of these suffers from its own limitation. For instance, growth of fixed assets does not take care of capacity utilization and also suffers from valuation problems. Total Assets are composed of, in addition to fixed assets, inventories and financial assets which may be considered irrelevant for real growth of the firm. And employment could change because of change in technique of production. Besides, to go into merits and demerits of these variables for measuring growth is futile in view of the fact that Marris' model contemplates a steady state growth viz. the one at which each one of the above indicators grows at the same rate and the mutual ratios remain constant. Thus, we shall use average annual growth rate in total assets over 1976-1980 as a measure of the variable GROW. This variable, however, measures only the growth of the company in its present organisational framework and not the growth through formation of new subsidiaries.

PROF: Profitability of the firm is measured as proportion of profits (after interest and depreciation but before tax) in total assets, averaged over the period of 5 years (1976-1980).

SIZE: Initial Size is measured in terms of total asset-base in the year 1976. To reduce heteroskedasticity problem SIZE will be expressed in logarithms.

OKR: Output-Capital Ratio is measured as a ratio of sales turnover to total assets, and is again averaged over 5 years (1976-1980). OKR is inverse of capital-output ratio and hence we expect a negative association between OKR and GROW.

ETR: Effective corporate tax rate is measured as proportion of tax provision to the pre-tax profits, averaged over the five year (1976-1980) period. ETR corresponds inversely to the tax concessions realized: lower the ETR, higher the proportion of tax concesions realized by the company and vice-versa. Hence an inverse association between ETR and GROW is expected.

MRTP: A dummy variable, taking value 1 if the company is registerd under the MRTP Act, 1969 and 0 otherwise.

The following equation is thus estimated with the above variables using ordinary least squares (OLS):

$$\text{GROW} = a + b_1 \text{ PROF} + b_2 \text{ SIZE} + b_3 \text{ OKR} + b_4 \text{ ETR} + b_5 \text{ PROF}^2 + b_6 \text{ SIZE2 } b_7 \text{ MRTP} + U$$

where a is intercept; $b_1 \ldots b_7$ are respective regression coefficients and U is the error term.

V. STATISTICAL RESULTS:

Results of the regression analysis are presented in Table I. It appears from the Correlation Matrix provided in the Appendix I that multicollinearity does not present a formidable problem.

Among the independent variables PROF is significant in all the equations estimated, at 1 per cent level of significance with hypothesized positive sign. A quadratic form of profitability was tried in equation 2, which too, turns out to be significant at the same level of confidence with negative sign of PROF^2. This confirms an inverted 'U' shaped relation between PROF and GROW as hypothesized by the managerial theorists. SIZE too, is significant at 1 per cent level but with negative sign. Unlike PROF its quadratic test turned out to be insignificant. The relationship between SIZE and GROW has been hypothesized to be one of inverted 'U' shape. The explanation of getting only an inverse association here could be in the fact that the sample for this study consisted only the largest firms in the Indian private corporate sector which have already crossed the optimum size and 'Penrose effect' dominates them. OKR is significant with negative sign implying positive relation between growth and capital-output ratio as per the expectation. The tax incentive variable ETR turns out to be significant only in 2 of the 4 regressions and the level of significance too, is low (5 per cent in one and 10 per cent in the other), though it has the hypothesized negative sign. It can only be implied that tax incentives have a positive but not a very significant role in promoting growth. In other recent studies on Indian tax incentives also only a weak association between the ETR and corporate investments could be established (Dixit & Prasad, 1982).

TABLE I: Multiple Regressions Explaining Corporate Growth (GROW) 1976-80

(Number of Observations: 2370

VARIABLE		EQUATIONS			
		1	2	3	4
1.	PROF	.3400[a]	.9283[a]	.3396[a]	.3224[a]
		(2.4326)	(3.4769)	(2.4267)	(2.2849)
2.	$PROF^2$		-1.2581[a]		
			(2.6601)		
3.	SIZE	-.0723[a]	-.0665[a]	-.0303	-.0675[a]
		(5.3383)	(4.9726)	(.0060)	(4.9765)
4.	$SIZE^2$			-.0183	
				(.0073)	
5.	OKR	-.0326[a]		-.0337[a]	
		(2.4513)		(2.5396)	
6.	ETR	-.0436	-.0967[b]	-.0453	-.0537[c]
		(1.0687)	(2.2171)	(1.1084)	(1.3085)
7.	MRTP	.0204	.0187		.256
		(.8735)	(.8039)		(1.0927)
8.	Intercept	.4251	.3416	.4256	.3624
	R^2	.1496	.1535	.1475	.1275
	R^2	.1312	.1351	.1290	.1125
	F	8.1303[a]	8.3750[a]	7.9925[a]	8.4776[a]

NOTE: t- Values in parentheses, Superscripts indicate levels of significance as follows:

a: 1 per cent, b: 5 per cent, and c: 10 per cent level.

The other policy variable viz. MRTP, remains insignificant in explaining growth of firms throughout. This result implies that the growth pattern of companies coming under the purview of the MRTPA is not significantly different from that of other companies. Thus this finding goes contrary to the general belief that the MRTPA restricts growth. It could either be due to inefficacy of the Act as pointed out by various studies or due to the ability of the concerned companies to circumvent it. This, however, is an area of further research.

The coefficient of variation of the estimated relationships is low, which is due to the sample-consisting a large cross-section drawn from diverse industrial sub-sectors. A significant portion of variation in growth is naturally owing to inter-industry differences which are not captured in the present exercise. The overall regressions are, however, significant at 1 per cent level as reflected in high F-values.

Inspite of admittedly limited specification of the rate of diversification variable in the present exercise, results pertaining to PROF, SIZE and OKR are in conformity to the Marris model and other empirical studies. Both the policy variables however, turned out to be weak in explaining growth of larger companies in India.

V. CONCLUSIONS:

In this paper an attempt has been made to explain the growth of larger non-government corporations in India over a period of 1976 to 1980 in a broader framework provided by Marris. Unlike other studies on the subject, however, two public policy-oriented variables affecting growth were incorporated in the present exercise viz. one pertaining to fiscal incentives to growth and the other to the monopolies legislation.

The empirical exercise supports the hypotheses framed on the basis of Marris model. The statistical findings bring out that the growth is positively related to profitability to certain extent beyond which they vary in different directions as per the expectations. For the larger firms; as in the sample for the present study, growth is found to be inversely related to the initial size of the firms. The capital-output ratio is found to be positively related to growth. The tax concessions

provide a positive but rather weak incentive for growth. The Indian monopolies legislation, which is expected to curb concentration of economic power in few hands, has not been found to be having any significant impact on growth of companies coming under its purview vis-a-vis other companies. This finding is contrary to the popular image of the legislation to be a damper of corporate growth. It seems pertinent in view of on going controversy on the efficacy and implications of the functioning of the Act and needs further research.

APPENDIX I

Correlation Matrix

	GROW	PROF	$PROF^2$	SIZE	$SIZE^2$	OKR	ETR	MRTP
GROW	1.0000							
PROF	.1291	1.0000						
$PROF^2$	.0471	.8458	1.0000					
SIZE	-.3214	-.0549	-.0615	1.0000				
$SIZE^2$	-.3217	-.0549	-.0615	1.0000	1.0000			
OKR	-.0686	.1415	.1706	.2287	.2287	1.0000		
ETR	.0071	.5606	.3136	-.0444	-.0444	.1667	1.0000	
MRTP	-.1107	-.0688	-.1039	.5200	-.5200	-.2848	-.0849	1.0000

NOTES

1. To some scholars, most notably Gibrat (1931), firm's growth was a purely stochastic process.

2. See Hay & Morris (1979) for a review.

3. Even in terms of significance, it was found for instance, in the case of 73 investment schemes financed by the ICICI, the total tax savings contemplated over the project cycles accounted for 38.5 per cent of total investments, Lall (1983).

4. The two other regulatory legislations are the Capital Issues Control Act, 1973. The former makes it obligatory, on the part of a company intending to issue shares or security in the market, to takeprior government consent. However in practice this is more of a formality of. Kumar (1982). The other one requires all companies at work in India to reduce foreign equity to 40 per cent and register under the Indian Companies Act, 1956. Once a company complies with its provisions it ceases to apply and hence is of self-liquidating character.

5. See for instance speeches of H.S. Singhania, a former President of Federation of Indian Chambers of Commerce and Industry, Singhania (1979).

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WORKING PAPER NO. 11

PRIVATISATION OF PUBLIC ENTERPRISES: SOME ISSUES FOR DEBATE

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Indian economy is a weak, though large, sub-system of the capitalist world. This, of course, is not to argue that it does not have unique features of its own. Nor is this to overlook the varied and meaningful economic and political association of the country with the socialist societies. An overwhelming part of the country's foreign trade is with countries having market oriented economic structures.[1] The main source of foreign aid is the industrialized west and the international institutions, like the International Monetary Fund, IBRD (World Bank) and IFC on which the country's development plans have depended substantially, are under direct control and domination of the countries of the capitalist world.[2] India has also foreign private interests in the form of direct investments by TNCs along with a very extensive coverage by technical, trade and financial agreements entered into by TNCs with India's influential private monopoly establishments, as also most of the Central Government controlled public enterprises. In addition to all above, the inflow of information, ideas and values from the market oriented societies is more frequent and intense than that from the socialist societies. The channels of communication are printed media, (thanks to the English language being the language of the economic, administrative and social elite of India) conferences, seminars, lecture tours of distinguished scholars and above all the experience and participation of key Indian policy makers in international fora which are basically for promotion and development of an international order, that is conceived to primarily find solutions for the problems faced by the industrially advanced societies. In short, the Indian economy cannot be treated as independent of the economic developments and trends of thought in the advanced market economies.

In U.K., the policy of privatisation has been resorted to by the Thatcher government. The sale, however, has been mainly confined to profit making public enterprises. While Jaguar, British Aerospace and some North Sea Oil enterprises have been already sole to private interests, the shares of the British Telecom were reported to be on

sale. British Airlines, it is expected, would be also one sale in a few months. Thatcher Government policy to privatise public enterprises has to be seen in the background of the successes with which the Reagan administration is claimed to have solved the U.S. economic problems.[3] Whether it is described as Reaganomics, supply side economics or the contributions of Friedman, the fact does remain that in contrast to the earlier enlarged and expanding role of state after the Second World War, it is being argued that state should involve itself in the economic activity only if it cannot avoid it. Liberalization of controls and state de-regulations are acquiring political respectability.

The discussion on the question of privatisation of public enterprises in India is of very recent origin. During the last few months it seems to have become an issue of debate because many seem to believe that it is under active consideration by the Indian policy makers. While there is no official policy document to confirm the likely adoption of the privatisation policy, there do happen to be a number of significant press reports in this regard. Prakash Tandon, in his Nehru Memorial Lecture 1984 posed the question:

> First and foremost we should decide whether we wish to keep it as public sector, as it is, a state sector. Today public has no say, no ownership, no control. It is owned and wholly run by the state, its political and administrative set up and the public is rigidly kept out of it except, it might be argued, through Parliament.[4]

After making a frontal attack on the very philosphy of public sector and expressing a doubt on the capability and legitimacy of Parliament, he proposed privatisation of profitable public enterprises and the need to follow the management strategies of TNCs.

Nitish Sengupta following the lead given by Tandon argued:

> ... A start could be made selectively with about five to ten such enterprises... There would surely be overwhelming response if companies such as STC, MMTC, HMT or BHEL make available some of their shares, say 24 per cent to the public... (This) will be desirable from the point of resources gathering...[5]

The suggestion for privatisation has been editorially supported by some of the leading financial dailies. While no concrete plan for privatisation of public enterprises appears to have been prepared, it would not be surprising if such policy proposals attract support from influential quarters.

II

The plea for privatisation of public enterprises should not be seen as an independent and isolated decision by itself. It falls in the overall framework of a policy of reduced public interventions, both direct and indirect, in order to direct and influence the structure and working of the economy. Withdrawal of direct government involvement in the economy implies a shift towards a philosophy and belief, that the pattern of new investments and deployment of national productive resources can be left to be determined by the market forces of demand and supply, thus avoiding the distortions which allegedly follow state interventions. The privatisation policy has to be accompanied by withdrawal of administrative controls, licensing and other policies which restrict free interplay of market forces. The logic would also suggest that private monopolies, national and international, are in principle, desirable and necessary for efficient and low cost production which, it is believed can be harnessed only with the economies of scale of large industrial units.

The policy towards the reduced role of the state does also suggest that instead of adopting national plan exercises and undertaking large public outlays, the state should basically confine itself to its limited role of maintaining law and order, supplemented by appropriate fiscal and monetary policies to protect vulnerable sections or to achieve well defined specific objectives.

Viewed from another angle, handing over of public enterprises to private managements can help to achieve what most democratic Governments cannot. For instance, private managements would be able to close down such economic activities which were not remunerative. It may affect closure of units established for considerations of providing certain special opportunities for backward regions. It could order the closure of all airline services to hilly areas as well as of the running of train services on the loss making routes. Cutting down of the labour bill through retrenchment or withdrawal of certain financial payments and other obligations, is more easily possible through the medium private managements than the public sector. Similarly, private managements can act faster and without much hesitation on questions of

price escalation of output and services, and also implement the best product mix to reap full advantages of the market.

The basic difference between private managements and those of the public sector, lies in the accountability of the formers' managements to a few (who are the dominant share holders) rather than to the large many shareholders or to the public at large who may have no direct stake in the enterprise. In substance "privatisation" means shifting of the responsibility to take harsh and unpopular decisions from the public policy making quarters to a few, who have, direct vested interests in generating returns to their investments but have no pretensions to safeguard or promote public interest.

The post Second World War period witnessed the emergence of many new liberated countries. Also, at that time in the market oriented group of economies it was an unquestioned belief that 'state' has to play a direct and effective role in the reconstruction of the War hit economies. The socialist bloc of countries had always stood for an ever growing role of state in the restructuring of their economies. These trends in the market oriented economies have come to be restricted by the experience of what is generally claimed as the success story of the US administration under Reagan. And the same is claimed to have happened in Britain under the stewardship of Margaret Thatcher. One may call this Reagonomics, supply side economics or the influence of Friedman. There is a clear thrust towards the reduction of economic intervention by the state in both the U.S. and the U.K. The influences of these two countries on internal economic policies of the other market oriented societies is also clearly discernable. This is irrespective of the character of the political parties in power of say, Sweden or France.

III

Quite apart from the limited discussion on privatisation as inspired by the happenings in the industrially advanced countries of the west, the public sector in India has been responsible for the establishment and promotion of enterprises which were later handed over to private parties. The process has, however, been confined to State

level public enterprises. Table-I lists some of the Government companies which got converted into Non-Government companies during the last one decade.

Table - I

Government Companies Converted into Non-Government Companies during 1973-83

i)	India Tea & Restaurant Ltd.	1982-83
i)	Andhra Pradesh State Seeds Development Corpn. Ltd.	1981-82
ii)	Rajasthan State Seeds Corpn. Ltd.	
iii)	Rourkela Fabrications Ltd.	
i)	Andhra Pradesh Oil & Chemicals Industries Ltd.	1980-81
ii)	Hindustan Diamond Co. Ltd.	
iii)	Samachar Bharati	
iv)	Deccan Fibre Glass Ltd.	
v)	Andhra Pradesh Refractories Ltd.	
vi)	Utkal Foundry & Engg. Co. Ltd.	
vii)	Madhya Pradesh Vidyut Yantra Ltd.	
viii)	Orissa Tools & Engg. Co. Ltd.	
ix)	Malwa Cotton Seed Products Ltd.	
x)	Punjab Engineers Cuting Tools Ltd.	
xi)	Karnataka Blades Ltd.	
i)	Hyderabad Connectronics Ltd. (1)	1979-80
ii)	Transformers & Electricals Kerala Ltd.	
iii)	Gujarat State Machine Tools Corpn. Ltd.	
i)	Gujarat Aromatics Ltd.	1978-79
ii)	Punjab Breweries Ltd.	
iii)	Andhra Pradesh Rayons Ltd.	
iv)	Almora Magnesite Ltd.	
i)	M.P. Agro Morarji Fertilizers Ltd. (2)	1977-78
ii)	Maharashtra Scooters Ltd. (2)	
iii)	Himachal Consultancy Organisation Ltd.	
iv)	U.P. Twiga Fibreglass Ltd.	
i)	Aravali Svachalit Vahan Ltd.	1976-77
ii)	Gujarat Alkalis & Chemicals Ltd.	
iii)	Jagannath Chemicals & Pharmaceutical Works Ltd.	
iv)	Fibre Foam Ltd. (3)	
v)	Orissa Concrete Products Ltd.	
vi)	Meghalaya Essential Oil & Chemicals Ltd.	
vii)	Industrial Papers Assam Ltd.	
i)	Andhra Pradesh Automobile Tyres & Tubes Ltd.	1975-76
ii)	Gujarat Carbon Ltd.	
iii)	Wagon India Ltd.	
i)	Manganese Ore Ltd. (4)	1974-75
ii)	Punjab Concast Steel Ltd.	
i)	Punjab Tractors Ltd.	1973-74

Note:

(1) Converted into a Government Company from a non-Government company during 1977-78.
(2) Converted into Government companies during 1976-77.
(3) Converted into a Government Company during 1974-75.
(4) Converted again into a Government Company during 1978-79.

Source: Annual Reports on the Working & Administration of the Companies Act, 1956, Various issues.

In most of these cases, the initial industrial licence was obtained by a state industrial development corpotations. It was argued by some State Governments, that initial establishment of these was necessary to promote the process of industrialisation in the state and to encourage local entrepreneurs. There is, however, some evidence to suggest that privatisation of many of such undertakings has been to benefit the already well established industrial Houses and not the local professionals or new entrepreneurs. Andhra Pradesh Rayon and Karnataka Blades Ltd. are cases in point. One needs to discuss the place and role of this process in which State Governments bear the risk and nurture the enterprises and only when the enterprises are on the threshold of making profits, the ownership and management gets tranferred to private parties. What are the advantages of such a planned privatisation process? And who derives them?

The number of companies which have been privatised may not be very large. But another sector which generally goes without much attention is the joint sector. Table-II provides an illustrative list of the joint sector companies which have been established by State Governments in collaboration with one or the other national monopoly House.

In this respect there is also need to underline that there are a large number of enterprises in which the majority or the main stake in the equity capital is that of public sector financial institutions. Table-III gives an illustrative list of large private sector companies in which more than 25% of the equity is held by Government and Government sponsored financial institutions. We have listed here only large companies with assets or turnover of Rs. 10.00 crores and above. The number, otherwise, would be more than 300.

IV

The process of fresh privatisation of Central Government undertakings may or may not get initiated. But in India there are already a large number of private sector undertakings in which public sector has large investments. It is a situation that is very close to the post privatisation conditions abroad. What should be the policy of the Government with regard to these undertakings? What should be the

Table - II

Illustrative List of Joint Sector Companies Promoted by the State Industrial Development Corporations in Collaboration with Large Industrial Houses

S.No.	Company	Private Promoter	House Association
	1	2	3
1.	Arakonam Castings & Forgings Ltd.	K.C.P. Ltd.	Ramakrishna
2.	Asia Carbon Ltd.	Phillips Carbon Black Ltd.	Goenka K.P.
3.	Automobiles Corpn. of Goa Ltd.	TELCO	TATA
4.	Bihar Air Products Ltd.	i) Asiatic Oxygen Ltd. ii) B.P. Industrial Corpn. (P) Ltd. iii) Amstar Investments Pvt. Ltd.	Soorajmull Nagarmull
5.	Bihar Caustic & Chemicals Ltd.	i) Gwalior Rayon and Silk Mfg. (WVG) Co. Ltd. ii) Hindustan Aluminium Corpn. Ltd. iii) Pilani Investment Corpn. Ltd.	Birla
6.	Deccan Fibre Glass Ltd.	Phillips Carbon Black Ltd.	Goenka K.P.
7.	Gujarat Aromatics Ltd.	i) Arvind Mills Ltd. ii) Raipur Mfg. Co. Ltd. iii) Aruna Mills Ltd. iv) Cibatul Ltd. v) Ashoka Mills Ltd.	Kasturbhai Lalbhai
8.	Gujarat Carbon Black Ltd.	Phillips Carbon Black Ltd.	Goenka K.P.
9.	IFLEL Refractories Ltd.	Belphar Refractories Ltd.	TATA

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S.No.	Company	Private Promoter	House Association
	1	2	3
10.	IPI - TATA Ltd.	Tata Iron & Steel Company Ltd.	TATA
11.	J & K Cigarettes Ltd.	Golden Tobacco Company Ltd.	Golden Tobacco.
12.	Karnataka Oxygen Ltd.	i) M/s Lachhiminarain Company ii) M/s Ambica Textiles	T.C.I.
13.	Lorcom Protectives Ltd.	London Rubber Company Ltd.	TTK
14.	Madhra Pradesh Electricals Ltd.	Shakti Insulated Wires Pvt. Ltd.	Khatau.
15.	Maharastra Scooters Ltd.	Bajaj Auto Ltd.	Bajaj
16.	Mandovi Pellets Ltd.	i) Chowgule & Co. Pvt. Ltd. ii) Chowgule Steamships Ltd.	Chowgule
17.	Mysore Petrochemicals Ltd.	Shekavati Invt. Corpn. Ltd.	Bangur
18.	Neptune Papers Ltd.	i) Sirpur Papers Mills Ltd. ii) Central India Inds Ltd. iii) Vimal Investments Ltd.	Birla
19.	NICCO Orissa Ltd.	National Insulated Cable Co. Ltd.	Birla
20.	Noble Explochem Ltd.	Bengal Tea & Industries ltd.	Kanoria
21.	Orissa Synthetic Ltd.	Straw Products Ltd.	Singhania
22.	Phenol Chemical Corpn. of Gujarat Ltd.	Duncan Brothers & Co. Ltd.	Goenka K.P.
23.	Punjab United Pesticides Ltd.	Excel Inds. Ltd.	TATA (II)

S.No.	Company	Private Promoter	House Association
	1	2	3
24.	Southern Agrifurane Inds. Ltd.	South India Corpn. (Agencies) Pvt. Ltd.	Chidambaram, M.A.
25.	Southern Petro-Chemicals Corpn. Ltd.	South India Corpn. (Agencies) Pvt. Ltd.	Chidambaram, M.A.
26.	Tamil Nadu Fluorine & Allied Chemicals Ltd.	i) Hindustan Aluminium Corpn. Ltd. ii) Gwalior Rayon Silk Mfg. (WVG) Co. Ltd. iii) Pilani Investment Corpn. Ltd.	Birla
27.	Tuticorin Alkali Chemicals and Fertilizers Ltd.	Southern Petro Chemical Inds Ltd.	Chidambaram, M.A.
28.	Webel Jyoti Power Electronics Ltd.	Jyoti Ltd.	Amin R.K.
29.	Webel Telecommunication India Ltd.	Phillips (I) Ltd.	Philips (FERA)
30.	West Bengal Alloy Steel Ltd.	Taxmaco Ltd.	Birla
31.	West Bengal Filaments & Lamps Ltd.	Bengal Assam Steamship Co. Ltd.	Andrew Yule
32.	West Bengal Pulp Wood Devpt. Corpn. Ltd.	Titaghur Paper Mills Co. Ltd.	Bangur
33.	Wiltech India Ltd.	Asian Cables Corpn. Ltd.	Goenka K.P.

Source: Corporate Information System, IIFA, New Delhi

Table - III

An Illustrative List of Large Private Sector Companies in which More than 25% of the Equity is held by Government and Government Sponsored Financial Institutions

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
AMIN			
1.	Jyoti Ltd. (23.9.82)	46.29	35.45
ACC			
2.	Associated Cement Co. Ltd.	37.31	201.70#
ASHOK LEYLAND			
3.	Ashok Leyland Ltd.	27.75	236.33@
BANGUR			
4.	Andhra Pradesh Paper Mills Ltd. (29.12.82)	59.87	36.05@
5.	Shree Digvijay Cement Co. Ltd. (29.6.82)	32.15	45.41@
6.	Shreeniwas Cotton Mills Ltd. (28.6.80)	46.97	17.43#
7.	Bengal Paper Mills Co. Ltd. (21.7.82)	26.86	17.09@
8.	Shree Synthetics Ltd. (30.12.82)	26.86	33.48
9.	Fort Gloster Inds. Ltd. (30.9.78)	49.15	9.72@
10.	Graphite India Ltd.	41.82	36.03@
11.	Hastings Mills Ltd. (6.11.79)	53.76	16.80@
BIRD HEILGERS			
12.	Titaghar Paper Mills Co. Ltd. (1979)	45.61	40.78
BIRLA			
13.	Kesoram Inds. & Cotton Mills Ltd. (31.5.82)	38.64	74.58
14.	Bharat Commerce & Inds. Ltd. (23.4.81)	33.06	31.77@
15.	Electric Construction & Equipment Co. Ltd. (7.4.81)	44.31	25.49@
16.	India Steamship Co. Ltd. (30.12.82)	30.82	108.55
17.	Jayshree Tea & Industries Ltd. (1980)	25.94	53.56
18.	Sirpur Paper Mills Ltd. (29.12.79)	42.56	25.39@

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
19.	Texmaco Ltd. (28.4.77)	31.50	42.33#
20.	Zenith Steel Pipes & Inds. Ltd. (3.10.80)	30.80	56.29
BOMBAY SUBURBAN			
21.	Bombay Suburban Electric Supply Co. Ltd. (23.9.82)	66.43	108.06
CENTRAL PULP			
22.	Central Pulp Mills Ltd. (27.3.80)	53.67	21.19@
DLF			
23.	Industrial Cables (I) Ltd. (1979)	46.44	26.02*
ESCORTS			
24.	Escorts Ltd. (26.6.80)	54.04	104.50@
ELCON ENGG.			
25.	Elecon Engg. Co. Ltd. (29.6.82)	26.33	57.09@
ITC			
26.	Tribeni Tissues Ltd. (30.4.82)	26.50	27.81@
27.	I.T.C. Ltd. (30.8.79)	28.02	210.18
FCC			
28.	Calcutta Electric Supply Corpn. (I) Ltd. (24.9.82)	38.46	273.24
29.	Dunlop India Ltd. (30.10.82)	33.74	163.82@
30.	Indian Aluminium Co. Ltd. (29.4.80)	27.26	155.61@
31.	Metal Box India Ltd. (30.12.82)	28.07	103.39@
32.	Simon Carves (I) Ltd. (4.6.82)	25.08	13.02@
NAIDU GV			
33.	South India Viscose Ltd. (27.6.79)	26.29	36.31
34.	Lakshmi Machine Works Ltd. (31.12.82)	47.02	41.86@
ICI			
35.	Indian Explosives Ltd. (17.2.81)	25.19	164.08@
36.	Alkali & Chemical Corpn. India Ltd. (19.2.82)	29.54	50.52@

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
37.	Crescent Dyes & Chemicals Ltd. (9.2.82)	40.16	13.82@
INDIA CEMENT			
38.	India Cements Ltd. (28.9.79)	48.69	33.04
KAPADIA			
39.	National Rayon Corpn. Ltd. (23.6.82)	35.37	55.86@
40.	Kohinoor Mills Co. Ltd. (29.9.80)	71.68	15.82@
41.	Ahmedabad Electricity Co. Ltd. (20.9.79)	38.34	112.97
HN KAPADIA			
42.	Poysha Industrial Co. Ltd. (1980)	50.29	17.00
KAMANI			
43.	Kamani Engg. Corpn. Ltd. (16.5.80)	49.13	58.24@
KHATAU			
44.	Khatau Makhanji Spg. & Wvg. Co. Ltd. (16.10.79)	31.85	25.48@
KIRLOSKAR			
45.	Kirloskar Electric Co. Ltd. (21.1.83)	38.11	46.28@
46.	Mysore Kirloskar Ltd. (1980)	41.92	22.88@
47.	Kirloskar Pneaumatic Co. Ltd. (1979)	60.42	28.36@
48.	Kirloskar Oil Engines Ltd.	30.79	57.33@
KOTHARI G.D.			
49.	General Indl. Society Ltd. (3.4.80)	30.13	21.86@
KOTHARI D.C.			
50.	Kothari (Madras) Ltd. (22.12.79)	27.57	50.45@
LARSEN & TOUBRO			
51.	Larsen & Toubro Ltd. (24.4.81)	34.74	142.21@
52.	Hindustan Brown Boveri Ltd. (23.10.80)	63.93	50.50
LALBHAI			
53.	Atul Products Ltd. (24.4.80)	34.03	64.44@
54.	Arvind Mills Ltd. (23.6.82)	27.40	46.24@

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
	MAHINDRA		
55.	Mahindra & Mahindra Ltd. (23.4.82)	44.10	129.50
56.	Mahindra Ugine Steel Co. Ltd. (1979)	28.24	86.41@
	MODI		
57.	Modipon Ltd. (31.8.77)	27.14	68.11
58.	Modi Rubber Ltd. (30.4.82)	39.84	93.78@
	PARRY		
59.	EID Parry (India) Ltd. (25.6.82)	28.17	57.55@
60.	Herdilla Chemicals Ltd. (16.4.80)	26.92	23.63@
61.	Coromandal Fertilizers Ltd. (2.6.82)	36.64	66.32@
	PODAR		
62.	Podar Mills Ltd. (1979)	45.31	13.41#
	RAUNAQ SINGH		
63.	Bharat Steel Tubes Ltd. (5.11.82)	42.94	32.96
64.	Appollo Tyres Ltd.	31.64	33.92@
	RAJASTHAN SPG.		
65.	Rajasthan Spg. & Wvg. Mills Co. Ltd.	37.88	25.70@
	SPIC		
66.	Southern Petro-Chemical Inds. Ltd. (23.12.81)	42.59	169.79@
	S P JAIN		
67.	Dhrangadhara Chemicals Works Ltd. (28.9.79)	30.28	29.25
	SCINDIA		
68.	Scindia Steam Navigation Co. Ltd. (1980)	34.54	205.13
	SHRI AMBICA		
69.	Shri Ambica Mills Ltd. (9.6.80)	31.87	66.03@

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
	SESHASAYEE		
70.	Aluminium Inds. Ltd. (25.9.82)	42.22	34.86
71.	Seshasayee Paper & Boards Ltd. (21.9.79)	56.73	31.71
	SHRI RAM		
72.	Jay Engineering Works Ltd. (27.8.80)	30.71	28.16@
73.	D C M Ltd. (28.12.82)	42.54	184.78@
	SINGHANIA		
74.	J.K. Industries Ltd. (28.7.80)	35.31	71.28@
75.	Sevenseas Transportation Ltd. (26.5.82)	31.52	17.19
	TATA		
76.	Voltas Ltd. (10.2.82)	45.73	126.44@
77.	Tata Engg. & Locomotive Co. Ltd. (24.8.62)	44.84	605.23
78.	Tata Iron & Steel Co. Ltd. (17.8.82)	42.25	687.52
79.	Tata Power co. Ltd. (23.9.82)	38.40	116.09
80.	Tata Hydro-Electric Power Supply Co. Ltd. (24.9.82)	33.92	65.46
81.	Ahmedabad Advance Mills Co. Ltd. (25.5.81)	42.52	40.20
82.	Svadeshi Mills Co. Ltd. (8.5.79)	37.14	18.17#
83.	Tata Oil Mills Co. Ltd. (1979)	33.89	86.81#
84.	Andhra Valley Power Supply Co. Ltd. (24.9.82)	51.18	93.59
	THAPAR		
85.	Ballarpur Inds. Ltd. (22.12.80)	27.00	124.79@
86.	Greaves Cotton & Co. Ltd. (10.12.79)	28.28	49.72@
	VISSANJI		
87.	Laxmi-Vishnu Textile Mills Ltd. (20.5.80)	28.74	14.70@
	NAIDU V R		
88.	Madras Aluminium Co. Ltd. (12.6.80)	33.61	31.81@

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
	WALCHAND		
89.	Premier Automobiles Co. Ltd. (1980)	25.83	50.66

Sl. No.	Name of the Company	Public Sector Share in Equity (%)	Assets (Rs. Crores)
	1	2	3
	WALLACE		
90.	Bombay Burmah Trading Co. Ltd. (19.3.80)	34.00	20.65@
	OTHERS		
91.	Mangalore Chemicals & Fertilizers Ltd. (28.7.82)	52.09	81.48@
92.	Gujarat Alkalies & Chemicals Ltd. (29.9.82)	50.57	24.94
93.	Sayaji Mills Ltd. (1982)	25.93	16.76
94.	Jain Tube Co. Ltd. (29.4.78)	27.05	15.56@
95.	Star Paper Mills Co. Ltd. (26.9.79)	27.88	19.40
96.	Gujarat State Fertilizers Ltd. (31.12.82)	74.12	178.96@

Note:

1. Date in brackets in col. 1 given alongwith the name of company indicates the date of the 'Share Distribution Schedule'.
2. Assets data in col. 3: Unless indicated otherwise assets data is for the year 1982; * indicates data for 1979; # for 1980; and @ for 1981.
3. FCC indicates Foreign Controlled Companies.
4. The House Classification is as per the Corporate Information System of the Indian Institute of Public Administration.

Source: Corporate Information System, IIPA, New Delhi.

form, degree or nature of public control in these undertakings? Should the responsibility to manage these undertakings continue with the present private managements who have only a marginal stake (say 5 to 10 per cent) in risk capital? If one is to accept the principle of profit maximization for the private sector industrial enterprises, can one accept that the private managements with 5-10 per cent share of the enterprises' profit would have more at stake than the public sector financial institutions which have majority or the largest single bloc of shares? In whose interest would it be to keep such enterprises on the profit making road? The financial institutions or the private managements?

If there are Government nominees, what should be their role? Or, alternatively, there can be a broad set of guidelines that no industrial House should be allowed to manage a company in which its own risk capital is less than half of the total equity. If privatisation has to have some of the advantages, then can one lay down some basic rules that private managements will not be allowed to direct company resources through 'transfer pricing' transactions with the management associated undertakings? Can there be strict rules for objective audits so that private managements cannot defraud public owned companies? Can there be some degree of 'public accountability', (not necessarily limited to officials), of the large enterprises in which national resources of large size have got invested?

If, however, the plea for privatisation of the public enterprises is to stall further expansion, oblige private industrialists or hand over the management to some TNCs under international pressures, the above stated questions would appear irrelevant. On the other hand, if a group of experts get together with clear public purposes in mind, they must address themselves to the problems of large enterprises as such and seek policy measures to bring in rationality in the process of decision making in these enterprises. At this level, the thin distinction between private and public enterprises, at least in India's case, would seem to have lost much of its meaning.

NOTES

1. The share of countries of Eastern Europe in imports was around 10-11 per cent and around 22 per cent in exports. See INDIA: *Economic Survey, 1982-83*, pp. 62-65.

2. Of the total External Assistance during 1982-83 the share of the USSR and Czechoslovakia was 4.35 per cent as against 29.8 per cent of the Western market oriented countries. The IBRD and IDA accounted for 55.2 per cent. See *ibid*, p. 152.

3. Fitchett, Joseph, "Privatisation of British Phones" and "Privatisation for Better Result", *Times of India*, October 15-16, 1984.

4. *Economic Times*, August 31, 1984.

5. Nitish Sengupta, "The case for Limited Private Shareholding", *Economic Times*, November 2, 1984.

WORKING PAPER 12

A STUDY OF INTER-CONNECTIONS UNDER THE MRTP ACT

In the Context of the Proposed Asset Limit Hike*

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A STUDY OF INTER-CONNECTIONS UNDER THE MRTP ACT
In the Context of the Proposed Asset Limit Hike

Introduction

The Monopolies and Restrictive Trade Practices Act (MRTP Act) was enacted in 1969 to prevent concentration of economic power to the common detriment, for control of product monopolies and for the prohibition of monopolistic and restrictive trade practices. While the idea and the format of the Act were a consequence of the recommendations of the Monopolies Inquiry Commission (MIC, 1965), the Industrial Licensing Policy Inquiry Committee (ILPIC, 1969) was the source of inspiration for the licensing policy towards the MRTP Act registered companies.[1]

Ever since the beginning, the functioning of the Act has been a subject of much controversy. Since size of assets, which was expected to reflect the economic strength of individual units and of groups of undertakings, has been chosen as the criterion for registering under the provisions relating to concentration of economic power, growth in the assets of industrial Houses has generally been seen as a proof of the failure of the Act in curbing the furtherance of concentration of economic power in private hands. While the phenomenon of non-registration of many of the recognised House-companies and reasons thereof have been discussed widely the basis of inclusion of companies in different Houses for the purpose of arriving at House-wise asset figures is not widely known. This assumes importance because of another relatively unknown fact that a number of companies which are included in different Houses do not admit IC among themselves. This paper attempts to study this phenomenon through case studies of the two largest 'Houses', Birlas and Tatas, and by citing important cases belonging to some other Houses. This is done mainly on the basis of studying the year-wise registrations, supported by the limited information available in the MRTP Commission's reports and Orders issued under the Act. An examination of the de-registrations under the Act has also been taken up at the end. The present exercise is expected not only to help in a better understanding of the administration of the Act in the light of

which it was amended in 1984 but also to understand the implications of the proposed hike in the asset limit from Rs. 20 crores to Rs. 100 crores for registration under the Act.

The Background

In view of the important place of the Act in Indian economic legislation, its functioning has been studied by a number of scholars and official committees which helped in bringing out the various shortcomings in the administration of the Act.[2] One of the main points of criticism has been that of large scale non-registration of companies which are believed to be constituents of different industrial Houses. It was initially expected that all companies included in the twenty Larger Industrial Houses(LIHs) by the ILPIC would automatically get registered themselves under the Act as the Rs. 20 crore asset limit adopted for purposes of the MRTP Act was much smaller than the ILPIC's limit of Rs. 35 crores for LIHs.[3] However, this was not to be. For instance, as many as 512 companies identified by the ILPIC as belonging to the twenty LIHs were found to have not registered themselves under the MRTP Act.[4]

Abolition of the managing agency system[5] coupled with the loopholes in the criteria - leaving the investment companies outside the scope of 'undertakings' was an important limitation - and the absence of an enforcing authority has resulted in many companies remaining outside the scope of the Act. Besides, many multinational companies could avoid registration under the Act as the criteria could not take note of ICs outside India.[6] This is only logical because registration under the Act not only entails them to get additional clearances under a number of circumstances like effecting expansion, establishment of new undertakings, taking over or amalgamating other undertakings but their area of further expansion also gets confined to what are now referred to as Appendix I industries. The Act has been amended a number of times, the most recent one being in June 1984. The High Powered Expert Committee on Companies and MRTP Acts (Sachar Committee), which submitted its report to the Government in 1978, had suggested a number of important changes in the criteria for IC which became the basis for the amendment of the Act in 1984.[7]

In spite of its limitations, the Act is held in disfavour by the private sector. The main note of discordance is in terms of the licensing policy applicable to the MRTP Act covered companies. Over a period of time, a number of relaxations have been allowed in this respect, particularly when the respective companies agree to export a substantial portion of the increased output or to set up their manufacturing units in notified backward areas. There have also been pleas for increasing the asset limit for registering under the Act for a long time. In their report submitted to the Janata Government a group of industrialists had asked to increase the limit from Rs. 20 crores to Rs. 45 crores.[8] The Sachar Committee, however, did not find it necessary to change the limit at that time. Raj Krishna had suggested Rs. 100 crores as the limit in 1979.[9] Paranjape also felt that there was a case for increasing the asset limit due to the increase in the price level. He suggested a limit of Rs. 50 crores in the case of aggregate concentration and Rs. 5 crores in the case of dominant undertakings. This, he expected, would facilitate in not only taking a closer look at the proposals of undertakings representing significantly large concentrations of economic power but also in quicker disposal of those applications as well as in studying ICs of such undertakings which had largely been neglected hitherto.[10] Recently, the Bharat Ram Committee had asked for a Rs. 100 crores limit.[11]

The finance minister in his budget speech had announced the Government's intention to increase the asset limit for registration under the MRTP Act from Rs. 20 crores to Rs. 100 crores in order to reflect the considerable increase in the cost and economic size of the projects since its enactment in 1969. A view credited to the Narasimham Committee was that it was unfair to keep the smaller of the industrial Houses in the same bracket along with the truly large ones like the Tatas and the Birlas whose assets exceed Rs. 2000 crores. Various estimates have been made to find the likely beneficiaries of the proposed asset limit. While one estimate put the number of beneficiary large Houses at 49, the other finds that 60 Houses would take advantage of the enhanced limit.[12] These expectations are based mainly on the House-wise asset data presented in the Parliament, adjusted for growth during the past couple of years. The basic assumption underlying these

predictions is that only industrial Houses with less than Rs. 100 crores of assets would benefit from the proposed hike. However, an examination of the operation of the registration system under the Act suggests that this sharp increase would benefit a larger number of Houses irrespective of their present reported assets. A study attributed to the Department of Company Affairs estimated that the number of Houses under the MRTP Act would drastically come down from 184 to 58 and only about 800 companies would remain under the ambit of the Act.[13]

Inter-connections and Registrations under the Act

Probably not many know that registrations under the MRTP Act are done not as constituents of a particular industrial 'House', but as those IC with a particular company or a group of companies - 'Group of Inter-connected Undertakings' (GICU). Registration of companies attracting the provisions of the Act is done under Section 26 of Act based on the criteria provided in Section 20. The basis for determining IC is provided in Section 2(g) of the Act. The main criteria for establishing IC between two companies is that one of the companies holds not less than one-third of the equity shares in the other or controls the composition of not less than one-third of the total membership of the Board of directors of the other. The 1984 amendment to the Act reduced the requirement of one-third equity/ control over Board to one-fourth. Sub-section 20(a) of the Act deals with cases of concentration of economic power, while 20(b) deals with product monopolies. At present, a company need to get itself registered under the Act, if (i) it has assets of Rs. 20 crores or more by itself or (ii) it controls along with its IC undertakings assets of Rs. 20 crores or more. Similarly, undertakings which (i) either by themselves, or (ii) along with their IC undertakings, possess not less than one-fourth[14] share in the production or supply of goods of any description and also have assets of at least Rs. one crore would attract the provisions of Section 20(b). A company can be registered under more than one Section of the Act depending upon the provisions applicable to it. The following explanations make this point clearer.

Section(s) under which covered	Implication
20a(i)	**Single large undertaking** The company has assets of Rs. 20 Crores or more and it does not accept inter-connection with any other company.
20a(ii)	**Inter-connected undertaking:** The company has assets of less than Rs. 20 crores but is inter connected with another company having more than Rs. 20 crores assets or the group of inter connected undertakings to which the company belongs has assets of more than Rs. 20 crores (none of them may individually posses assets of Rs. 20 crores).
20a(i)(ii)	**Large undertaking having inter connected undertakings:** The company has assets of Rs. 20 crores and above. It is also inter-connected with at least one undertaking.
20b(i)	**Dominant undertaking:** Has a market share of one-fourth or more in the production or distribution of a product or a service and also has assets of not less than Rs. 1 crore. It does not admit inter-connection with any other undertaking in terms of 20a(ii).
20b(ii)	**Inter-connected dominant undertaking:** The Company along with it inter-connected undertakings controls at least one-fourth market share of goods or services of a particular discription and their combined assets amount to not less than Rs. 1 crore.
20a(i)b(i)	**Single large undertaking which is also dominant:** The company has assets of not less than Rs. 20 crores and a share of at least one-fourth in a particular product line.

Information on registrations and cancellations under Section 26 of the MRTP Act is being reported regularly since the mid-seventies in the **Company News & Notes**, a journal of the Department of Company Affairs. It reports the date of registration and the Section(s) under which a company was registered. The latest information in published form is available in the September 1984 issue of the journal which gives the registrations and cancellations made during April-June 1984. Information on the names of IC undertakings, which would have been very useful, however, is not provided in the journal. Some information on individual ICs, however, can be gleaned from the Reports of the MRTP Commission prepared in connection with the applications referred to them by the Government and the Orders of the Government on the applications of individual companies. The journal has for some time also been reproducing replies to important questions asked in the Parliament relating to Companies and MRTP Acts. From the journal we could get the lists of undertakings registered under the Act as at the end of 1975 and 1976.[15]

Though the registrations are not done on the basis of House, the Parliament is occassionally provided data on the composition and strength of different industrial Houses whose undertakings are registered under the MRTP Act, at the request of the members. Such a House-wise list of undertakings as at the end of 1978 is reproduced in the **Company News & Notes.**[16] Besides, the Corporate Information System of the Indian Institute of Public Administration has a House-wise list of undertakings registered under the Act as on 30.6.1978 and an alphabetical list of such undertakings for the year 1979(1979 Alphabetical List) which were obtained from the Department of Company Affairs. For the sake of convenience we shall refer to these House-wise lists in the following as the June 1978 and December 1978 Lists. The latest year for which we could obtain House-wise picture, though only for 10 Houses, is 1981.[17] House-wise aggregate asset figures for the year 1982 were reported in the Parliament in February 1984 (hereafter referred to as 1982 House-wise Assets List).[18] This list is useful in knowing the names of Industrial Houses falling under the purview of the MRTP Act as at the end of 1982.

On the basis of the 1981 House-wise List we make, in the following, a detailed analysis of the reported registrations under the MRTP Act of companies 'belonging' to the two largest Houses namely, the Tatas and the Birlas.[19] It should be clearly understood that the following analysis of the two Houses is mainly confined to the undertakings registered as on December 31, 1981, thus excluding the ones de-registered after initial registration, whatever might be the reason (e.g. nationalisation, amalgamation, changes in inter-connection, etc.). However, to a limited extent, information on past registrations and cancellations is also made use of. Dates of registration of the companies in these two Houses and the sections under which they have been registered is determined on the basis of the 1979 Alphabetical List and the reported registrations in the **Company News & Notes.** In case of some companies which have been registered for a long time, there may have been changes in the applicability of the provisions of Section 20 of the Act after initial registration. The 1979 Alphabetical List unfortunately does not contain any information in this regard.

The Tata House

Table 1 shows the constituents of the Tata House, arranged according to the date of registration, along with the Section(s) under which they are registered and their assets in 1981. It is also indicated whether a particular company was included in the House of Tatas by the ILPIC. It can be seen that out of the 13 companies registered in 1970, the first year of the enforcement of the Act, Tata Chemicals, Voltas, TISCO and TELCO were registered as single large undertakings, thereby implying that they did not accept IC with any other undertaking. However, the presence of Steel City Press, a subsidiary of TISCO at that time suggests that TISCO must have applied for registration as an a(i) company initially, with the subsidiary following suit as an a(ii) undertaking. This view gets strengthened by the fact that Voltas was registered as an a(i) company in 1970, and Voltas International, which became its subsidiary in 1978, got itself registered in 1979 as an a(ii) company. Technically speaking, the registration of Voltas must have then been changed from a(i) to a(i)(ii) after the registration of Voltas International, as the latter would at least be IC with Voltas, if not any other.

It can also be expected that the three power companies namely, Tata Power, Andhra Valley and Tata Hydro Electric, which were registered as a(i)(ii) companies must have done so because individually they had assets of more than Rs. 20 crores and had also accepted IC among themselves.[20] The investment portfolio of TISCO in 1970-71 suggests that Cyanides & Pigments, Belpahar Refractories (now its subsidiaries), Tata S&L Sales, Tata Yodogawa and Indian Tube Co.(registered in 1971) in which TISCO had more than one-third share at that time might have accepted their IC with TISCO. Though enough details are not available about the IC of Stewarts & Lloyds, it might have accepted its IC with TISCO. Tata Robins Fraser must also have accepted IC with TISCO since the latter besides being its promoter also holds substantial equity shares in it. Indeed, the Parliament was informed in 1979 that the TISCO Group consisted of 9 companies viz., TISCO, Belpahar Refractories, Cyanides & Pigments, Indian Tube Co., Steel City Press, Stewarts & Lloyds, Tata Robins Fraser, Tata S&L Sales and Tata Yodogawa.[21] This leaves Tata Chemicals, Voltas and TELCO all of which are registered as a(i) undertakings.[22]

Table 1 : Composition of the Tata House#
(as on 31.12.1981)

S No	Name of the Company	Parent Company	Covered under Section	Date of Reg.	Assets (Rs. cr)
1.	Stewarts & Lloyds of (I)		a(ii)	19.10.70	12.30
2.	Tata Power*		a(i)(ii)	19.10.70	106.63
3.	Cyanides & Pigments*	TISCO(now)	a(ii)	20.10.70	0.35
4.	Tata Hydro Electric Power*		a(i)(ii)	20.10.70	43.81
5.	Tata S&L Sales*		a(ii)	22.10.70	0.07
6.	Steel City Press	TISCO(former)	a(ii)	23.10.70	0.12
7.	Voltas*		a(i)	23.10.70	128.17
8.	Andhra Valley Power*		a(i)(ii)	24.10.70	60.97
9.	Tata Yodogawa		a(ii)	26.10.70	8.48
10.	Belpahar Refractories*	TISCO(now)	a(ii)	27.10.70	22.67
11.	TataIron& Steel Co.(TISCO)*		a(i)	30.10.70	467.85
12.	Tata Chemicals*		a(i)b(i)	11.11.70	88.02
13.	Tata Engg. & Locomotive Co.		a(i)	14.11.70	459.81
14.	Indian Tube Co.*		a(i)(ii)	12. 1.71	59.66
15.	Tata Oil Mills Co.(TOMCO)*		a(i)(ii)	21. 2.73	77.48
16.	International Fisheries*	TOMCO	a(ii)	2. 3.73	0.14
17.	Lakme*	TOMCO	a(ii)	2. 3.73	5.25
18.	Tata Robins Fraser*		a(ii)	7. 3.74	17.09
19.	Forbes Forbes Campbell*(FORBES)		a(ii)	16. 4.74	11.69
20.	Indian Vegetable Products*		a(ii)	24. 7.74	9.64
21.	Industrial Perfumes*		a(ii)	28. 2.75	3.89
22.	Perfect Extrusions	FORBES	a(ii)	17. 7.75	0.02
23.	Svadeshi Mills Co.*		a(ii)	19.10.76	16.45
24.	Ahmedabad Advance MIlls*		a(ii)	21.10.76	28.73
25.	Coromandel Garments*	Svadeshi	a(ii)	21.10.76	2.04
26.	Central India Spg.*		a(ii)	25.10.76	20.75
27.	Associated Bearing@		a(i)(ii)	19. 2.77	39.56
28.	Tata Sons*		a(i)(ii)	11. 3.77	30.58
29.	Shourie Duplicators		a(ii)	13. 4.77	0.54
30.	Skefko India Bearing		a(ii)	28. 9.77	4.94
31.	Tata Dilworth (firm)		a(ii)	17.12.77	N.A.
32.	Indian Hotels Co.*		a(ii)	17. 3.78	28.11
33.	Forbes Shipping*	FORBES	a(ii)	5. 7.78	0.79
34.	Kay Distillery Inds.	FORBES	a(ii)	10. 7.78	1.15
35.	Sarada Latham Business Mach.	FORBES	a(ii)	25.11.78	0.20
36.	Tata Burroughs		a(ii)	30. 5.79	7.09
37.	Tata Exports		a(ii)	31. 5.79	71.90
38.	Voltas International	Voltas	a(ii)	31. 8.79	0.25
39.	Crescent Iron & Steel Corp.	Voltas	a(ii)	26. 9.80	0.92
40.	Wandleside National Conductors	Voltas	a(ii)	26. 9.80	2.03

House composition and asset data are based on the reply to the Unstarred Question No. 10 provided in the Rajya Sabha on July 25, 1983. Date of registration and the section(s) under which a company is covered are based on the 1979 Alphabetical List of Undertakings registered under the MRTP Act (available with the Corporate Information System, IIPA) and various issues of **Company News & Notes.** Assets of Svadeshi Mills Co. and Shourie Duplicators are for 1980 and in all other cases they refer to 1981.

* Indicates that the company was included in the Tata House by the ILPIC and @ indicates that the company was shown as a 2-tier one of the same House.

Nearly two years after the registration of Indian Tube Company, Tata Oil Mills Co.(TOMCO) had got itself registered, along with its two subsidiaries, International Fisheries and Lakme. A possible explanation for this again could be that these three companies accepted IC among themselves and they had to register as their combined assets crossed the Rs. 20 crores limit. TOMCO's registration under the Sections a(i) and a(ii) also means that TOMCO by itself had crossed the Rs. 20 crores limit. This type of inference becomes inevitable as all the three were existing companies at the time of the ILPIC and all of them were included under the House of Tata by the Committee and it took them nearly two and a quarter year to register under the Act after the registration of the first batch of 'Tata' companies in 1970.[23] Industrial Perfumes might also have accepted its IC with TOMCO in 1975 as the latter holds substantial share capital of it.

Similarly, the four textile companies Svadeshi Mills, Ahmedabad Advance, Central India Spg. and Coromandal Garments must have accepted IC amongst themselves and hence got registered under a(ii), in 1976. Once again, it can be noticed that all the four companies were included in the Tata House by the ILPIC and their registration had taken place six years after the Act came into force. Associated Bearing and Skefko India Bearing must also have got registered in 1977 as the former's assets exceeded the Rs. 20 crore limit and they accepted IC between themselves.[24] Forbes Forbes Campbell and its subsidiaries along with Indian Vegetable products (since taken over by the Allana Sons Group) and Shourie Duplicators (since de-registered) are likely to be another group of companies which accepted IC among themselves. Interestingly enough, the Government observed in 1971 itself that Forbes Forbes Campbell was IC with Tata Sons Pvt. Ltd., Sassoon J. David & Co. Ltd. and Investment Corpn. of India Ltd. While Sassoon J. David and Investment Corpn. of India did not register themselves until June 1984 (possibly under the plea of not being 'undertakings' as per the MRTP Act), Tata Sons got registered itself in 1977 i.e. nearly three years after the registration of Forbes Forbes Campbell. Tata Sons was in fact served a default notice in January 1976.[25]

Further evidence to the fact that a number of important Tata companies did not accept IC and the basis for such non-acceptance is available in the report of the MRTP Commission submitted to the Government (in December 1971) in connection with TELCO's application for substantial expansion of its manufacturing capacity of commercial vehicles. In his dissenting report Prof. Paranjape stated,

> **The company (TELCO) has unequivocally stated that it is not inter-connected with any other company in terms of the MRTP Act. A similar statement has been made by TISCO and many other Tata Companies to whom a questionnaire had been addressed by the Commission.** The implication of these answers appears to be that while the inclusion of these companies as belonging to the larger House of Tatas might have been justified according to the criteria adopted by the Dutt Committee, the criteria laid down for defining the inter connected concerns under the MRTP Act are quite different and the claim of the companies was and is that they are not inter-connected in that sense, especially in view of the abolition of the managing agency system from April, 1970. (emphasis added).[26]

At this point one would like to know the basis on which these companies were included in the Tata House as they clearly appear to be forming smaller GICUs. A likely explanation is that the Government may still be broadly following the ILPIC's classification. (It may be recalled that initially the Government accepted the Committee's classification and subjected the constituents of the Larger Industrial Houses to stricter licensing provisions). Whenever fresh registrations take place, either those of ILPIC-identified companies or of those which are clearly IC with the already registered 'House' Companies, the Government may be including them in the 'House'.[27] In the case of new Houses, the procedure could be to name the House either on the basis of the prominent company in the GICU with which most of the other companies are IC or after the controlling family. (e.g. Oswal Wollen Mills, I.M.F.A., Sawhney and B.D. Somani).

However, the problem becomes more complicated if we go slightly beyond the above official list of Tata House Companies. Table 2 contains a list of selected companies which got themselves registered under the Act during the post-1979 period. They were selected because all of them are related to the Tata House in some manner or other. It may be mentioned that the Parliament was informed on March 15, 1982 that registrations of two companies belonging to the Tata House took place during the period January 1980 to December 1981.[28] Since the first two companies namely Crescent Iron & Steel and Wandleside National Conductors, both subsidiaries of Voltas, also appear in Table 1, one

Table 2 : Selected Tata House Related Companies Registered Under the MRTP Act after 1979

S No	Name of the Company	Parent Company	Covered Under Section(s)	Date of Registration
1.	Crescent Iron & Steel Corp.	Voltas	a(ii)	26. 9.80
2.	Wandleside National Cond.	Voltas	a(ii)	26. 9.80
3.	Gokak Patel Volkart		a(ii)	22. 6.81
4.	Patel Cotton Co.	Gokak	a(ii)	8. 7.81
5.	John Fleming & Co.	Gokak	a(ii)	28. 8.81
6.	Chanda Paints (Madras)	Goodlass	a(ii)	31.12.81
7.	Goodlass Nerolac Paints*		a(ii)	31.12.81
8.	Saurashtra Paints	Goodlass	a(ii)	31.12.81
9.	Tata Press*		a(ii)	15. 2.82
10.	Eureka Forbes	FORBES	a(ii)	4. 5.82
11.	Tata Projects		a(ii)	28. 5.82
12.	A P Industrial Components	FORBES	a(ii)	20. 4.83
13.	Tata Klockner Industrial		a(ii)	1. 3.84
14.	Excel Industries@		a(i)	27. 4.84

Source: These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of **Company News and Notes.** Date of registration and section(s) under which covered are also taken from the journal.

* Indicates that the company was included in the Tata House by the ILPIC (@ indicates a 2-tier company).

would expect that the reply was referring to these two companies only. Of the six companies shown in the table as registered during 1981, Gokak Patel and Goodlass Nerolac have two subsidiaries each. It may be noted that Goodlass Nerolac was included in the Tata House by the ILPIC. Gokak Patel Volkart was formed through the amalgamation of Gokak Mills (classified as a Tata Company by the ILPIC) and Patel Volkart Ltd. Why was it then that only two additions were shown against the Tata House for the period Jan. 1980 - Dec. 1981? The answer can be found in the reply to another question in the Parliament which gave the 1982 House-wise Asset List. 'Gokak Patel' was one of the reported Houses with assets of Rs. 31.38 crores. It seems unlikely that Goodlass Nerolac was included in the Gokak Patel House because its addition would have taken the assets of Gokak Patel much beyond Rs. 31 crores. Assets of Gokak Patel Volkart Ltd. and Goodlass Nerolac Paints Ltd. were Rs. 27.30 crores and Rs. 19.38 crores respectively as on 31.12.1981.[29]

Then where were Goodlass Nerolac and its subsidiaries placed? The 1982 list of Houses does not contain any 'Goodlass Nerolac' House. Interestingly enough, one finds from the reply in the Parliament given on March 15, 1982, referred to above, that 4 undertakings were registered as part of the 'Gillanders Arbuthnot' House. From the default notices served on the companies for not registering under the MRTP Act, one finds that companies like Eyre Smelting, Gillanders Arbuthnot, Goodlass Nerolac, Indian Woodcraft, Jutlibari Tea, Tengpani Tea - the last two mentioned are subsidiaries of Gillanders Arbuthnot & Co. - have been asked to register under the MRTP Act as part of the 'Gillanders Arbuthnot' House.[30] On an examination of the registration lists for the period January 1980 to December 1981, it was found that besides Goodlass Nerolac and its two subsidiaries only Eyre Smelting was registered under the Act. Thus it can be inferred that the reply of March 15, 1982 was treating these 4 companies as part of the Gillanders Arbuthnot House. However, a few relevant facts need to be mentioned here:

(i) neither Gillanders Arbuthnot & Co. nor its subsidiaries hold any equity shares in Goodlass Nerolac;

(ii) Eyre Smelting and Goolass Nerolac along with Waldies Ltd. (which has since become a subsidiary of Gillanders Arbuthnot) have been associates of Lead Industries Group Ltd. U.K.;[31]

(iii) Waldies has been registered under the Act since 21.10.1970 as a b(i) (dominant) undertaking;

(iv) Gillanders Arbuthnot itself is currently not registered under the Act;

(v) foreign equity in Gillanders Arbuthnot is held by Ogilvy Gillanders & Co. Ltd. U.K. (We have not been able to find any relationship between Gillanders Arbuthnot and Ogilvy Gillanders on one hand and Lead Industries Group and Goodlass Nerolac on the other, except that Waldies, an affiliate of Lead Industries Group has recently become a subsidiary of Gillanders Arbuthnot. Surprisingly, we have not been able to find Ogilvy Gillanders & Co. Ltd. in the relevant volumes of **Who Owns Whom**);[32]

(vi) (a) Gillanders Arbuthnot was asked by the Government in 1977 to register under the MRTP Act on the grounds that the company's assets together with those of the IC undertakings exceeded Rs. 20 crores but the Directors of the company explained in their report to the shareholders that "in considering the inter-connections, the Government had included in their list of undertakings, a number of companies with which this company admit no inter-connections; therefore, this view could not be accepted and the Government were advised accordingly"; and (b) the company filed a writ petition in the Delhi High Court and in terms of the order of the High Court issued in October 1982 the "company is not registrable under the M.R.T.P. Act";[33]

(vii) Goodlass Nerolac was identified as a Tata company by the ILPIC while Gillanders Arbuthnot was shown as a company belonging to the Gillanders Arbuthnot Group;

(viii) Gokal Patel Volkart which holds 25.33% of equity capital of the company (the Directors of the company make a special mention of the fact in their report to the shareholders) is the second largest shareholder of Goodlass Nerolac after the Lead Industries Group;

(ix) Investment Corpn. of India and a few subsidiaries of Forbes Forbes Campbell hold substantial number of shares of Goodlass Nerolac; and

(x) (a) there has been interlocking of Directorships between Gokak Patel, Goodlass Nerolac and Forbes Forbes Campbell; (b) in 1981 all the three had a common Chairman and after the death of the incumbant Chairman, these companies had once again opted for a common Chairman; and (c) all the three companies had changed their respective accounting years from Jan-Dec. to July-June after the presentation of the 1981 Annual Reports.

It becomes clear from the above that Goodlass Nerolac has been closer to Gokak Patel rather than Gillanders Arbuthnot & Co. Placing it in the Gillanders Group apears to be somewhat strange particularly since the main company of which itself is not registered under the Act. It is surprising to find that while in a number of cases, the non-resident equity was not given much weightage in determining ICs and House affiliations, in this case so much emphasis appears to have been given to it. For instance, Hoechst Dyes and Hoechst Pharmaceauticals, both affiliates of Hoechst, Germany, have been placed under different Houses namely, Mafatlal and United Breweries respectively. Similarly, two Indian affiliates of Hawker Siddley Group Ltd. U.K. viz. Crompton Greaves and Kirloskar Electric Co. are being treated as constituents of Thapar and Kirloskar Houses respectively.

The Birla House

We shall now analyse briefly the registrations of companies reported to be belonging to the Birla House. As in the case of Tata House, later registrations tell an interesting story in the case of Birla House also. The ILPIC had identified as many as 203 companies as constituents of the Birla House. A further 73 were termed as its second-tier companies. However, it can be seen from Table 3 that till the end of 1971, only 28 companies were registered. In the next two years another 11 companies got registered. Out of the 28 companies registered till 1971 as many as 12 were subsidiaries of other companies. Thus simple IC of parent-subsidiary relationship can be established between the 12 subsidiaries and their 7 respective parent companies.[34] One company, namely Hyderabad Asbestos Cement has been registered as an a(i)b(i) undertaking.[35] While National Engg. Industries is shown in the Table as an a(ii)b(ii) undertaking it was initilly registered as a b(i) undertaking only.[36] Zuari Agro Chemicals, a company promoted by Birla Gwalior in collaboration with Armour & Co. USA, in 1967, was registered as a single large undertaking in 1971.[37] One can notice clearly that registration of the ILPIC-identified companies was continuing into the 'eighties. Some of the well known Birla companies which took a long time to register under the Act include Jayshree Tea and Bharat Commerce & Industries both of which got registered in 1978 as single large undertakings.

A study of the MRTP Commission's reports on HINDALCO and other Birla companies clearly brings out the difficulty in making the companies of the Birla House accept ICs. For instance, the report on HINDALCO reveals that companies like HINDALCO, Kesoram Industries, and Gwalior Rayon had not admitted IC **inter se** or with any other companies excepting their own subsidiaries in terms of Section 2(g) of the MRTP Act. However, after a long delay in the clearance of its proposal, HINDALCO amended its application. According to the Commission's Report in the revised application submitted to the Government it was stated that

> ... considering the provisions of the law the applicant company is not interconnected with any company except those mentioned in its original application. However, purely with a view of facilitating and expediting the disposal of the application, the applicant agrees for the limited purpose of the disposal of the present application, that it may be assumed that the applicant company is inter-connected with the following companies:[38]

Table 3 : Composition of the Birla House#
(As on 31.12.1981)

S No	Name of the Company	Parent Company	Covered Under Section	Date of Reg.	Assets (Rs. cr)
1.	Bihar Alloy Steels*		a(i)(ii)	26. 9.70	43.43
2.	Birla Jute Mfg.*		a(i)(ii)	19.10.70	75.84
3.	Assam Jute Supply*	Birla Jute	a(ii)	20.10.70	0.39
4.	Orient Paper & Inds.*		a(i)(ii)	20.10.70	56.88
5.	Orient General Inds.*	Orient Paper	a(ii)	21.10.70	21.42
6.	Renusagar Power*	HINDALCO	a(i)(ii)	22.10.70	126.32
7.	Kesoram Inds. & Cotton Mills*		a(i)(ii)	22.10.70	55.58
8.	Hindustan Motors Corp.*	Hind. Motors	a(ii)	23.10.70	0.58
9.	Uteco*	Hind. Motors	a(ii)	23.10.70	negl.
10.	Bharat General & Textile Inds*	Kesoram	a(ii)	24.10.70	12.84
11.	Gwalior Rayon*		a(i)(ii)b(i)	24.10.70	202.90
12.	National Engg. Inds.*		a(ii)b(ii)	24.10.70	30.34
13.	Express Dairy*		a(ii)	26.10.70	0.28
14.	Kerala Spinners	Gwalior Rayon	a(ii)	27.10.70	4.19
15.	Century Spg. & Mfg.*		a(i)(ii)	27.10.70	150.59
16.	Hindustan Heavy Chemicals*	Kesoram	a(ii)	27.10.70	3.68
17.	India Linoleums*	Birla Jute	a(ii)	28.10.70	6.32
18.	Motolite*	Orient Paper	a(ii)	28.10.70	0.01
19.	Hindustan Motors*		a(i)(ii)b(i)	30.10.70	102.36
20.	India Steamship*		a(i)(ii)	6.11.70	114.48
21.	Air Conditioning Corp.*	Orient Paper	a(ii)	11.11.70	6.26
22.	Hyderabad Asbestos Cement*		a(i)b(i)	12.11.70	39.51
23.	Eastern Spg. Mills & Inds.		a(ii)	14.11.70	9.99
24.	Taylor Instrument Co. India*		a(ii)	7.12.70	9.01
25.	Jiyajeerao Cotton*		a(i)(ii)	7.12.70	46.38
26.	Salt & Allied Inds.*	Jiyajeerao	a(ii)	7.12.70	0.34
27.	Zuari Agro Chemicals		a(i)	29. 3.71	74.72
28.	Hindustan Aluminium Corp.*		a(i)(ii)b(i)	16. 4.71	201.72
29.	National Rolling & Steel Ropes		a(ii)	11. 1.72	1.88
30.	Indian Plastics*		a(ii)	27. 4.72	4.83
31.	Texmaco*		a(i)(ii)	5. 8.72	42.26
32.	Lionel Edwards*		a(ii)	13.10.72	0.94
33.	Usha Investment Corp.*		a(ii)	13.10.72	0.02
34.	Newspapers*		a(ii)	13.10.72	0.16
35.	Shobhana Traders*		a(ii)	13.10.72	0.15
36.	Padmavati Raje Cotton*		a(ii)	28.12.72	1.44
37.	Aditya Investments Pvt.*		a(ii)	2. 2.73	0.11
38.	Hindustan Wire & Metal Pdts.		a(ii)	29. 5.73	0.05
39.	Bally Jute*		a(ii)	27. 9.73	7.82
40.	Ratnakar Shipping*		a(i)(ii)	11.10.73	46.00

S No	Name of the Company	Parent Company	Covered Under Section	Date of Reg.	Assets (Rs. cr)
41.	Sutlej Cotton Mills*		a(ii)	4. 1.74	18.04
42.	Minerals & Minerals*	HINDALCO	a(ii)	11. 4.74	0.50
43.	Associated Industrial Devt. Co.		a(ii)	4. 6.74	0.27
44.	Hercules Tdg. Corp.		a(ii)	4. 6.74	0.46
45.	Ghillidary Tea*		a(ii)	9. 7.74	1.07
46.	National Bearing Co.(Jaipur)*	Ntnl.Engg.Ind	a(ii)b(ii)	24. 7.74	0.50
47.	Mysore Cements*		a(ii)	3. 8.74	35.04
48.	Punjab Ginning & Pressing*		a(ii)	25. 9.74	0.69
49.	Bengal Stores*		a(ii)	23.11.74	0.16
50.	Indian Rockwool*		a(ii)	5. 2.75	0.09
51.	Jaipur Finance & Dairy Products		a(ii)	29. 3.75	0.11
52.	Rameshwara Jute Mills*		a(ii)	31. 3.75	3.13
53.	Indian Shipping Co.*		a(ii)	31. 3.75	0.13
54.	New Swadeshi Mills of Ahmedabad*		a(ii)	5. 5.75	14.13
55.	Eastern Economist*		a(ii)	6. 8.75	0.04
56.	Rajasthan Inds.*		a(ii)	23.12.75	0.94
57.	General Marketing & Mfg.		a(ii)	25. 5.76	4.43
58.	Wood Craft Products*		a(ii)	4. 5.77	7.45
59.	Bharat Commerce & Inds.*		a(i)	2. 1.78	30.85
60.	Jayshree Tea & Inds.*		a(i)	10. 3.78	42.61
61.	Modern India Construction@		a(ii)	11. 6.79	3.36
62.	Oriental Machinery & Civil Const.		a(ii)	11. 5.81	1.02
63.	Universal Cables*		a(ii)	3. 9.81	24.70

House composition and asset data are based on the reply to the Unstarred Question No. 10 provided in the Rajya Sabha on July 25, 1983. Date of registration and the section(s) under which a company is covered are based on the 1979 Alphabetical List of Undertakings registered under the MRTP Act (available with the Corporate Information System, IIPA) and various issues of **Company News & Notes.** Assets of Express Dairy, Hindustan Wire & Metal, Indian Plastics, Indian Rockwool and Texmaco are for 1980 and in all other cases they refer to 1981.

* Indicates that the company was included in the Birla House by the ILPIC and @ indicates that the company was shown as a 2-tier one.

Similar amendments were also made by Birla Jute, Kesoram Industries, Gwalior Rayon and Century Spinning in their applications. When the Commission wrote to all the companies IC in such a manner, to ascertain views on the IC no company except Zuari Agro denied the assumption of IC or raised any objection.[39] It may be noted that before deciding on the proposals of the above mentioned companies, the Commission had entrusted the task of studying IC of selected Birla companies to the Director of Investigation. (His report was annexed to the Commission's report on the application of Kesoram Industries). The Director of Investigation in his report felt it pertinent to mention that

> ... even a limited study of 12 selected companies has revealed inter-connection amongst 72 Birla Group of Companies and as such if a full scale study is undertaken, it may be possible to establish inter-connection amongst a very large number of Birla Group of Companies.[40]

The Commission, however, decided not to proceed further in the matter of IC as it was satisfied that the type of amendment made by the applicant companies was sufficient for the purpose of disposing of their applications.[41] It seems that the Government did not meet with much success in getting at least all the companies which accepted IC in the above stated manner. Companies like Birla Cotton, Birla Bombay, Birla Brothers, and Birla Consultants which did not reject IC are yet to register under the Act, in spite of default notices being served on them.[42] Another such company, namely, Sirpur Paper Mills had got itself registered in 1982 as an a(i) undertaking.

In the case of Birla House also it was reported that two more companies had got registered during January 1980 to December 1981.[43] However, from Table 4 it can be observed that during this period 4 companies got registered which can be traced to the Birla House. Since Oriental Machinery and Universal Cables also appear in Table 3 we can assume that the reference was to these two companies only. The other two, which were registered as single large undertakings are again known to be Birla companies and both were included in the Birla House by the ILPIC. Then why were they not included in the Birla House in the reply relating to the 1981 assets position of Birla Companies? Was it because they have been registered as a(i) undertakings? In that case why were the other a(i) companies like Zuari Agro Chemicals , Hyderabad Asbestos Cement and Jayshree Tea shown as belonging to the House?

Table 4 : Selected Birla House Related Companies Registered Under the MRTP Act During the Post-1979 Period

S No	Name of the Company	Parent Company	Covered Under Section	Date of Registration
1.	Century Enka*		a(i)	24.12.80
2.	Zenith Steel Pipes & Inds*		a(i)	6. 3.81
3.	Oriental Mach. & Civil Const.		a(ii)	11. 5.81
4.	Universal Cables*		a(ii)	3. 9.81
5.	Sirpur Paper Mills Ltd.*		a(i)	18. 3.82
6.	Electric Const. & Equip.*		a(i)	26. 6.82
7.	Mangalam Cement		a(i)	16. 9.82
8.	Indian Tool Manufacturers*		a(i)	15. 3.83
9.	Central India Machinery Mfg.*		a(i)	16. 3.83
10.	Upper Ganges Sugar Mills*		a(i)	9. 6.83
11.	Oudh Sugar Mills*		a(i)	9. 6.83
12.	East India Carpet Co.	OCM	a(ii)	6. 7.83
13.	Trinity Textiles	OCM	a(ii)	6. 7.83
14.	Oriental Carpet Mfrs.(OCM)		a(ii)	6. 7.83
15.	Leatherite Industries	OCM	a(ii)	6. 7.83
16.	Gobind Sugar Mills*		a(i)	27. 1.84
17.	Universal Electrics*		a(ii)	24. 3.84
18.	Universal Plast	OCM	a(ii)	24. 3.84

Source: These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of **Company News and Notes.** Date of registration and section(s) under which covered are also taken from the journal.

Indiates that the company was included in the Birla House by the ILPIC.

A little more insight into the grouping of companies for the purpose of reporting House-wise asset figures can be obtained from the following. Indian Rayon Corporation was shown as a part of the Birla House after its registration in 1979, but the subsequent House-wise lists did not include the company. Indeed, the company was later referred to as an independent/Indian Rayon House company.[44] Needless to say, this company was also a recognised (ILPIC) Birla House company.[45] A number of companies which were till then being shown as part of the Birla House, were transferred in 1980 to the Somany Group. The companies were: Hindustan Sanitaryware and its two subsidiaries Soma Plumbing Fixtures and Ceramic Services; Hindustan National Glass and its subsidiary Glass Equipment (I); Somany Pilkington, Somany Properties and R.L. Rodda & Co.[46] Thus one can observe the tendency to shift companies from a House to another or to create a new House whenever there is any objection.

The post-1979 registrations further indicate that a number of well known Birla companies did not accept IC with any other undertakings. Prominent among them are, Electric Construction & Equipment(ECE), Central India Machinery Manufacturing Co.(CIMMCO), Century Enka and Zenith Steel Pipes.[47] CIMMCO was earlier registered in 1970 as a b(i) undertaking but got de-registered in May 1976. While Indian Tool Mfrs. is registered as an a(i) company, the Government feels that the "provisions of Section 20a(ii) are also applicable as the company belongs to the 'Birla' Industrial House".[48]

Recently the Parliament was informed that the assets of the Birla House rose from Rs. 2004.74 crores in 1982 to Rs. 2830.94 crores in 1983.[49] That is in one year their assets increased by Rs. 826 crores. We find from Table 4 that four Birla companies got registered as a(i) undertakings during 1983.[50] Out of these four, one company, viz., CIMMCO did not accept IC with any other undertaking. If the remaining three companies were treated as constituents of the House then part of the increase in assets of the House in 1983 should be attributed to their inclusion. This again is related to the more fundamental questions of how the composition of Houses is determined and how far the reported asset figures of different Houses reflect their true strength? Our suspicion is that their growth rate could be an over-estimate while

the quantum of assets is an underestimate. This is mainly because the House composition is being determined on the basis of registrations at a particular point of time.[51] When another company which is otherwise known to be a part of the House, is registered, it is included in the House provided it does not object to it. Thus a situation arises when no new company comes into existence nor any new ICs are established, the assets of a House increase simply because the status of a company has changed in terms of the MRTP Act. The tentative nature of the House composition and the asset figures becomes clearer from the careful wording of the following extract from the answer to a Parliament question given in 1977.

> Assuming registration under Section 26 of the Monopolies and Restrictive Trade Practices Act, 1969, as the basis for the grouping, as on 30th September 1977, 69 undertakings **appear** to **belong to Birla Group.** (emphasis added)[52]

Other Industrial Houses and Single Large Undertakings

In the following we present a few important cases which further illustrate the fact of non-acceptance of IC by companies of other industrial Houses. The relevant cases are shown in Appendix I. Ballarpur Industries Ltd. (formerly Ballarpur Paper & Straw Board Mills) which was identified as a Thapar House company by the ILPIC, accepted IC with only 17 other undertakings, notable exceptions being Greaves Cotton & Co.(also identified as a Thapar company by the ILPIC) and its subsidiaries.[53] Ballarpur Industries later accepted IC with 23 undertakings, which was still less than the total strength of the House as shown in the December 1978 List. There is a possibility of the House comprising of two independent GICUs since we can see from the Appendix that Ruston & Hornsby (India), a subsidiary of Greaves Cotton & Co., accepted IC with only 8 other undertakings while the total number of companies shown in the Group at the end of 1978 was 33.

Similarly, Atul Products of the Kasturbhai Lalbhai Group did not accept IC with any of the so-called Lalbhai Textile companies viz. Arvind Mills, Ashoka Mills, Nutan Mills, etc.[54] This fact came into light at the time of the examination of Atul Products' proposal for manufacture of two anti-biotic drugs and three types of weedicides by the MRTP Commission during 1973-74. The Commission felt that it was not necessary to go into the details of ICs of the company as far as the

application of the company in question was concerned. They, however, noted that they "would not like to express any opinion in this Report regarding this company's inter-connection with other companies belonging to the Kasturbhai Lalbhai and Imkemex India Ltd (of the ICI Group)".[55] Another company, Anil Starch Products, which was also identified as belonging to the House by the ILPIC accepted IC with only two companies.[56]

Another important example for non-acceptance of IC is that of Sarabhai Sons Pvt. Ltd. The company which was included in the Sarabhai House by the ILPIC, had not accepted IC with Ahmedabad Mfg. Calico Ptg. Co.,(CALICO) another company included in the Sarabhai House, in view of the abolition of the managing agency system. It had also not accepted IC either with Suhrid Geigy Ltd. or with Suhrid Geigy Tdg. Ltd. The company, however, stated that these two companies were registered under the Act only by way of abundant caution.[57] It is interesting to note that out of the 11 companies with which the company had admitted IC four companies namely, Synbiotics, Standard Pharmaceuticals, Sarabhai Technological Development Syndicate and Travelera were shown as constituents of Sarabhai House along with CALICO, Suhrid Geigy and Suhrid Geigy Tdg. Co. in the December 1978 List.[58] There was a re-organisation of a number of Sarabhai Group companies in 1977, which finally culminated in the emergence of Ambalal Sarabhai Enterprises Ltd. Ambalal Sarabhai Enterprises got registered under the Act in 1979 and one finds that it is being treated as a constituent of the Sarabhai House along with CALICO.

Some other noteworthy cases are: DCM Ltd. accepting IC with only DCM Intl. (its subsidiary) and Shriram Fibres Ltd.; Modi Rubber accepting IC with only three companies of the Modi Group; Dhrangadhra Chemical Works accepting IC with only its subsidiary namely, Plastic Resins & Chemicals; Premier Automobiles admitting IC with only its subsidiaries; and Bombay Dyeing accepting IC with only Nowrosjee Wadia & Sons Pvt. Ltd. However, there are some Houses like Simpson, G.V. Naidu, Chowgule and Mafatlal in which the problem of non-acceptance of IC at least among the registered undertakings does not appear to be significant.

The following are a few more important cases which were not included in Appendix I. Bajaj Auto had contended that it was not interconnected under the MRTP Act, and "it specifically pointed out that it was not interconnected with any companies in the so-called Bajaj Group".[59] It may be noted that the company was initially registered as a b(i) undertaking and subsequently as an a(i) undertaking also. Phillips Carbon Black Ltd., promoted by Duncan Brothers & Co. Ltd. and Phillips Petroleum Co. USA, was shown alongwith Duncan Brothers & Co. and 4 other companies as a Goenka Group company in the June 1978 List. However, in the December 1978 List, the company was not shown as a part of the House. This probably should be understood in the background that the company was registered as a b(i) undertaking, thus not accepting IC with any other undertaking interms of Section 20 a(ii). Similarly, Bharat Forge which was included in the Kirloskar House by the ILPIC has been registered as an a(i) undertaking and appears as a Kirloskar company in the June 1978 List. However, in the list it was explained that the company had represented to the Government that it was not a part of the Group. It appears that the company's contention was accepted as it was taken out of the House and shown as a 'single large undertaking' in the December 1978 List. Similar was the case with Swadeshi Polytex Ltd. which was initially shown as a constituent of the Jaipuria Group.

It is interesting to note that in the case of J.K. Synthetics Ltd. which has been treated as a company belonging to the J.K. Singhania House, for purposes of arriving at the House-wise asset figures, a Government Order under the MRTP Act observed that the "... company was registered on 4th December, 1970 as an undertaking to which the provisions of Section 20(a)(i) of the Act are applicable and belongs to 'J.K. Singhania' Group".[60] The 1979 Alphabetical List also shows the company to have been registered under a(i)b(i) only. The 1982 House-wise assets list shows 'Jyoti' as a separate House. Jyoti Ltd. which was registered under the Act in February 1982, however, was placed in the Amin House by the ILPIC along with Alembic Chemical Works and Alembic Glass and a number of other companies. Since the latter two have not yet been registered under the Act, one can infer that they did not accept IC with Jyoti Ltd.

It is also interesting to find that while the House-wise lists show Southern Industrial Corpn. as a company belonging to the M.A. Chidambaram Group, it was mentioned to be belonging to the 'SPIC' Group in one of the orders issued by the Government under the MRTP Act.[61] It may be noted that SPIC (Southern Petrochemical Inds. Corpn.) was promoted by Tamilnadu Industrial Development Corpn. in the joint sector with M.A. Chidambaram and K.R. Srivasta as the private promotors and is registered as an a(i) company and is shown as a 'single large undertaking' in December 1978 List.

As has already been brought out, a number of House companies have been registered as single large undertakings. At the end of 1979, there were 46 undertakings which were registered either as a(i) or a(i)b(i) undertakings.[62] A further 48 were registered under a(i) during January 1980 to June 1984, the latest period for which information is available. Table 5 shows a list of selected companies registered during the latter period, excluding the ones which were already covered in Tables 2 and 4. This is intended to provide an idea of the composition of the 'single large undertakings' category.

Apart from the presence of a number of companies which are covered under the Foreign Exchange Regulation Act, 1973, one also finds a number of companies which are believed to be constituents of different industrial Houses. For instance, Dalmia Cement (Bharat) has been registered as an a(i) undertaking. Further, a Government order under the MRTP Act clearly states that the company had not admitted IC with any other undertaking.[63] However, it is pertinent to mention that the company (identified by the ILPIC as Dalmia J. company) had been earlier under default notice since 25.6.1975 to register itself as an undertaking IC with Dalmia J. Group of companies. When a number of companies to whom default notices were sent in a similar manner had contended that they did not form a Group, the Central Government approached the Company Law Board to determine the question of Group as per section 2(18A) of the Companies Act. The Company Law Board decided that

> the facts of the case clearly demonstrate that Shri J. Dalmia and his relatives listed in Statement 'I', appended to the petition, constitute a Group within the meaning of section 2(18A) of the Companies Act, 1956. We also hold that the said group along with the companies listed in Statement 'II', annexed to the petition,

Table 5 : List of Selected Companies Covered Under 20a(i) Registered During Jan. 1980 to June 1984

S. No.	Name of the Company	Date of Registration	Remarks
1.	George Williamson Assam	23. 1.80	FERA
2.	Bhadrachalam Paper Boards	24. 1.80	Promoted by ITC
3.	Britannia Industries	11. 3.80	Formerly under FERA
4.	Orissa Cement	17. 4.80	Dalmia J.
5.	Tribeni Tissues	18. 6.80	FERA
6.	Sandoz (India)	22. 8.80	FERA
7.	Swan Mills	27.12.80	J.P. Goenka
8.	Assam Company (India)	27. 1.81	FERA
9.	Bayer India	30. 1.81	FERA
10.	Bajaj Tempo	29. 6.81	Firodia
11.	Sree Rayalaseema Paper Mills	25. 7.81	TGL
12.	Dalmia Cement (Bharat)	25. 8.81	Dalmia J.
13.	Machinery Mfrs. Corpn.	29. 3.82	Mahindra
14.	Vazir Sultan Tobacco Co.	4. 5.82	Formerly under FERA
15.	Hindustan Development Corpn.	22. 7.82	Mody(Calcutta)
16.	Aluminium Industries	5. 1.83	Seshasayee
17.	Sandvik Asia	9. 6.83	FERA
18.	Goodricke Group	17. 2.84	FERA
19.	Hindustan Dorr Oliver	1. 3.84	FERA
20.	Modi Alkalis & Chemicals	24. 3.84	Promoted by Modi Inds., Modi Rubber, Modi Spg. and Modipon
21.	Ingersoll Rand (India)	19. 5.84	FERA
22.	Grindwell Norton	19. 5.84	FERA

Source: These are selected from the lists of undertakings registered under Section 26 of the MRTP Act published in various issues of **Company News and Notes.**

Note: Though Orissa Cement and Vazir Sultan Tobacco are reported to have been registered under 20a(i) it appears that the provisions of 20a(ii) are also applicable to them as Konark Minerals and Vishwarama Hotels, subsidiaries respectively of these two companies, are also registered under the Act.

FERA status is as per the list of FERA companies reported in the Rajya Sabha on 26.3.1985 in reply to the Unstarred Question No. 883 (reproduced in **Assocham Parliamentary Digest**, No. 5, 25th to 30th March 1985).

> and M/s. Orissa Cement Ltd., M/s. Dalmia Cement (Bharat) Ltd. and M/s. Dalmia Dairy Industries Ltd. constitute a Group within the meaning of Section 2(18A) of the Companies Act, 1956.[64]

Inspite of this, in the 1982 House-wise Assets List, the company does not seem to have been treated as a part of the Dalmia J. Group. The list contains a 'Orissa Cement' House with assets of Rs. 55.13 crores. However, Dalmia Cement (Bharat) is unlikely to have been included in this House as the assets of Orissa Cement itself were more than Rs. 50 crores in 1982.

Similarly, Hindustan Development Corpn. which was earlier asked to register under the Act as a part of the Mody(Calcutta) Group has been registered as an a(i) undertaking only. Another interesting case is that of Tata Finlay Ltd. which had admitted IC with 8 undertakings of the Tata Group. The company has often been referred to as a Tata Group company, but not shown under the House in the House-wise lists. This has been continuing even after the dissolution of the James Finlay Group in India. While the June 1978 List shows it as part of the James Finlay Group in the December 1978 List the company was shown as a single large undertaking. As can be seen from Table 1 the company is not included in Tata House even in 1981.

Another important case is that of the Indian affiliates of the British American Tobacco (BAT) Group of U.K., viz. ITC, Vazir Sultan Tobacco(VST), Tribeni Tissues and Molins of India.[65] ITC has been registered under the Act since 1970. It had promoted Bhadrachalam Paper Boards(BPBL) in 1975. From Table 5 we find that BPBL is registered as an a(i) undertaking. ITC's share in BPBL's equity is approximately 32% while that of VST is 14%. Interestingly enough, from the prospectus of BPBL one finds that ITC enjoys the right to appoint two or more directors, but always constituting less than one-third of the strength of BPBL's Board as long as ITC holds 25 to 33% of equity of BPBL.

Unlike in the case of Gillanders Arbuthnot and Goodlass Nerolac we find that the operations of ITC and VST have not been altogether independent. For instance, it was complained to the MRTP Commission that these two companies have been indulging in restrictive trade practices and that they cooperate with each other by producing each others brands. For instance, it was alleged that while ITC got some of its brands made by VST, ITC manufactured CHARMINAR Special brand of

cigarettes for VST. ITC was the sole distributor for a number of brands of VST and it had "exclusive distribution rights for CHARMINAR brand of cigarettes over many parts of the country".[66] We observed that except for three (out of seven) the rest of the directors of VST in 1983 were earlier with ITC. One of the remaining three was from Molins of India. Both ITC and VST hold shares in Molins of India, Vishwarama Hotels(subsidiary of VST) and Bhadrachalam Paper Boards. Incidentally the 1982 House-wise Assets List treats VST as a separate House. Similarly, Tribeni Tissues which had been under default notice for its alleged IC with ITC, is now registered under a(i).

De-registration

Another important aspect of the administration of the MRTP Act which has generally not been shown the attention it deserves is the de-registration of once registered undertakings. Normally, a company gets de-registered either if it is nationalised or amalgamated with another company or there were changes in the shareholding pattern/constitution of Board of Directors resulting in changes in IC or when a company is nationalised or taken over by another company resulting in the combined assets of the remaining undertakings of the Group falling below the Rs. 20 crore limit and so on. Till the end of 1984 as many as 374 undertakings were de-registered while in the case of 408 undertakings applications for de-registration were rejected.[67] As the cases of nationalisation and takeovers are clear in nature and the severance of IC is obvious what one would like to know more about is the companies which have got de-registered either on the plea that they were no longer IC with the ones continue to be registered or found that the IC cannot be established. This is because of the fact that a number of companies got themselves registered initially as they thought that they were also covered by the provisions of Section 2(g) of the Act[68] and some even claimed that they have got registered even if they were not IC only out of abundant caution.

The details regarding de-registration have been taken from **Company News & Notes** which, however, does not explain the reasons for de-registration.[69] A selected list of de-registered companies is given in Appendix II. In selecting these companies care has been taken to

exclude nationalised and amalgamated cases as far as possible. If these de-registrations were allowed on the basis of changes in IC, a point worth enquiring into is whether these were accompanied by changes in actual control or they were only of a technical nature. This is because, the Government sometimes imposes on companies restrictions like reduction of promoters'/controlling family's shareholding in the company so that the shareholding pattern of the company becomes broadbased, while approving their proposals.

The following cases tend to suggest that de-registration need not necessarily imply de-linking from the respective industrial House. For instance, we find from Appendix II that Cyanamid (India) got de-registered during 1980. However, there was virtually no change in the Board of Directors of the company during 1979-1981 as can be seen from its Annual Reports for the years ending in 1979, 1980 and 1981. The only change occured during the period was the replacement of one of the representatives of American Cyanamid by another of its representatives. This should be seen in the background of the fact that American Cyanamid Company and Atul offered a part of their shareholdings in the company to the public which resulted in the reduction of foreign equity in Cyanamid India from 65% to 55% and that of Atul from 35% to 30%. Cyanamid (India) applied for de-registration under the MRTP Act as "With the reduction of Atul's shareholding to 30% in Cyanamid India Limited the inter-connection with Atul has been severed and the provisions of Chapter III of the Monopolies and Restrictive Trade Practices Act, 1969, should no longer apply to the Company".[70]

Similarly, while National Insulated Cable Co. (NICCO) got de-registered under the Act in 1978, one finds that National Rolling & Steel Ropes (NRSR), a company regarded as a part of the NICCO Group[71] continues to be registered under the Act and the 1981 House-wise List shows NRSR to be a constituent of the Birla House.(see Table 3) A comparision of the Annual Reports of NICCO for the accounting years ending in March 1976 and March 1979 brings out that the only change in the composition of the Board of Directors of the company during the period was the induction of one new director while same persons continued to be the Chairman and Managing Director of the company. In addition, in 1979 three of the Directors of NICCO were also on the Board

of Associated Industrial Development Co. Pvt. Ltd., a company which continues to be registered under the Act and which is shown as a constituent of the Birla House in 1981, (see Table 3) and they constituted 60% (3 out of 5) of its Board.

Another case of interest is that of Roplas (India) Ltd. of the Mahindra & Mahindra House. The company was initially registered under the MRTP Act in 1971. In 1972 it got registered with the Directorate of Small Scale Industries for the manufacture of fibreglass reinforced plastic products. However, after the reservation of fibreglass reinforced plastic products for the small scale sector and the change in the policy of the Government which would make the company ineligible for exemption under the Industries (Development & Regulation) Act, 1951, the company applied for de-registration under the MRTP Act as according to its understanding " it is no more inter-connected with Mahindra & Mahindra Ltd."[72] A study which discussed the company's case in detail, cited a number of points to show that Roplas was "still a part of the house of Mahindras" and concluded that cancellation of Roplas' registration under the MRTP Act "demonstrates the weaknesses of the Indian anti-monopoly legislation".[73]

We have already seen from Appendix I that Bombay Dyeing accepted IC with only Nowrosjee Wadia & Sons Pvt. Ltd. However, from Appendix II we can see that not only the latter company got de-registered but also a number of others like Botanium and Gherzi Eastern have got de-registered leaving only Bombay Dyeing, National Peroxide and Neville Wadia Pvt. Ltd. from the December 1978 list of Nowrosjee Wadia Group under the purview of the MRTP Act. One also finds that a number of undertakings of Chidambaram, Khatau and Thiagaraja Houses and all companies of Ruia House got de-registered. The case of one of the Thiagaraja companies is revealing. The Government in its Order dated 5.3.1982, approving the substantial expansion proposal of Loyal Textiles Ltd., imposed a condition that

> The shareholdings of Thiagaraja Group, their directors, relatives, the bodies corporate holding shares in the applicant company at present and their inter-connected undertakings and the directors and relatives of directors of such companies and undertakings shall be reduced to 40% within one year from the date of the order.[74]

As can be seen from the Appendix, the company got de-registered on 26.5.82 possibly because the Group reduced the required share to less

than 33 1/3% instead of 40%. However, a comparision of the Board of Directors of the company for the years 1980-81 and 1982-83 shows that out of nine directors of the company in 1980-81, seven(including the two Managing Directors) continued in 1982-83 as well, the remaining two in 1982-83 being nominees of IFCI and SIPCOT.

Conclusions

The fact that the registrations of companies which were existing at the time of enactment of the Act and which were also placed in the Houses of Tatas and Birlas by official committees and commissions was spread over a long period clearly indicates that the criteria under the Act could not capture the relation between them. Considerable direct evidence is also available which shows that a number of companies of these Houses, registered under the MRTP Act, do not admit IC among themselves. This phenomenon is not confined to these two Houses only. Moreover, a number of important recognized House companies are yet to register under the Act. Attempts at getting them registered by issuing default notices and through legal proceedings have met with only limited success.[75] While the Commission itself is not in a position to take up the question of IC on its own, even in cases referred to them they were mainly concerned with establishing IC only when the question of dominance was involved. Barring the aborted attempts of establishing IC of Tata and Birla House companies no significant efforts were made in this direction.

A number of Houses as reported by the Government from time to time are made up of smaller groups of IC companies. Many recognised House-companies have been registered under the Act not because they accept IC with the already registered ones, but due to the fact that their assets exceed the Rs. 20 crore limit either singly or jointly with companies with which they are closely related. The Government has been broadly following the House-classification made by the Industrial Licensing Policy Inquiry Committee and has been including companies under different Houses on that basis whenever they are registered, unless they have any objection. There have been instances of giving separate House status to recognized House companies if representations are made against such inclusion. This practice, one should expect, is adopted by the

Government as a compromise between what has come to be believed on the basis of earlier findings and what the criteria under the Act could achieve. Otherwise, one should imagine, assets data would have to be reported for a TISCO House, a TOMCO House, a Dharangadhra House and a DCM House. Such reporting would probably have attracted public attention to the phenomenon of non-acceptance of IC. The reported asset figures are in any case indicative rather than definite proof of the strengths of respective Houses.[76]

This phenomenon acquires further significance in view of the recent proposal to increase the asset limit from Rs. 20 crores to Rs. 100 crores. In the light of what has been observed above it is only logical to expect that all those GICUs and single large undertakings, whether included in a 'House' or not, would become eligible for de-registration after the asset limit is increased, provided their assets are less than Rs. 100 crores. Thus all Houses, irrespective of their present reported assets, can potentially take advantage of the asset limit hike. However, two points which have a bearing on this possibility need to be taken into account. One, the extent of benefit a House can derive depends to a large measure on its structure. If the GICU is made up of one single large company (assets in the range of Rs. 100 crores) and a few smaller ones this hike is not going to affect its MRTP status. Similarly, for Houses in which the holding company type of structure is prevalent, the hike has very little significance. Second, and the more important one, is the change in the criteria for establishing IC introduced through the amendment of the Act which came into force from August 1984. Some of the significant changes incorporated are in respect of bringing investment companies under the purview of the Act, reducing the required control on equity and on the Board to one-fourth and introducing the definition of 'Group'.[77] So far there are no clear indications as to the type of new registrations that had taken place due to the amendment except that 462 undertakings were registered under the Act during the period 1.4.1984 to 31.12.1984.[78] Though this number looks quite large compared to what has been the experience of recent years, it is still far short of the total number of companies which were expected to be registered.[79] However, one cannot ignore the fact that a number of companies got registered under

the Act initially, some even out of 'abundant caution', but later got de-registered once they found that IC cannot easily be established. The relevant cases discussed above show that de-registration need not always be accompanied by severance from the respective Houses.

Bringing legal provisions nearer to reality and making them acceptable by those who would be affected by them is a difficult task. Doubts have already been expressed whether even with all the clarifications introduced "the concept (group) will fully and properly serve the purpose for which it is intended".[80] A number of Houses control their companies through a maze of inter-corporate investments with investment companies playing a major role.[81] Establishment of control of the House over all such companies requires an extensive organisational structure in the absence of which only the obvious type of ICs, particularly where direct shareholdings are involved, can be established. Another likely hurdle would be in identifying 'Associated Persons' for purposes of establishing the 'Group'. Much also depends on how the new criteria would be interpreted in respect of relatives, particularly brothers who are legally separated. Deciding House association may also become a difficult task as many companies may now turn out to be technically IC with more than one House. It took nearly six years for the changes in criteria to be introduced after the Sachar Committee had recommended them in 1978 and this period was enough for affecting suitable modifications in ownership and control structures by interested Houses. In any case with the increase in asset limit, the scope and in turn the desire for such readjustments would also increase. Necessity to continue to operate in and to enter into fresh areas which are outside the Appendix I industries will force the Houses to devise new methods to overcome the MRTP legislation.

There is a need for periodic studies to keep track of the trends in economic concentration. From this point of view also efforts at keeping track of the composition of industrial houses,[82] not necessarily from the point of registrations under MRTP Act, are necessary. Such studies would be useful in evaluating the contribution of the industrial policies in promoting new entrepreneurs. This information would also be a vital and necessary input in efforts at controlling product monopolies.

Looking from a different angle, rectification of a few important lacunae in the functioning of the Act which would have paved the way for realization of its objectives, was not attempted by the 1984 amendment. For instance, the Government still holds the option whether to refer the proposals of individual companies to the Commission or not. Similarly, appointing the staff of the Commission, though in consultation with the latter, continues to be its prerogative. How these factors have been affecting the working of the Commission and the administration of the Act are too well known to be repeated here. Thus whatever may be the ultimate coverage of the Act one cannot expect much from the point of achieving the objective of prevention of concentration of economic power to the common detriment. With the donations to political parties by the corporate sector now being legalised, the chances of abuse of economic power by big business have become more pronounced.[83] Giving the MRTP Commission its due place would be a step in the right direction which would also save the Government from avoidable criticism. It would be in the fitness of things if such changes are brought in along with the asset limit increase.

[I am grateful to Professor S.K. Goyalfor his encouragement and useful comments. Thanks are also due to all my colleagues in the Corporate Studies Group and to Nagesh Kumar and Michael Howard for the interest shown and helpful suggestions given. However, the responsibility for the views expressed lies entirely with me.]

Appendix I : Variation in Number of Inter-connected Companies and Companies Included in Different Houses

S. No.	Name of the Company	House Association	No. of inter-connected Companies	Date of order under the MRTP Act
	1	2	3	4
1.	Southern Indl. Corpn.	Chidambaram	47 (35)	10. 5.77
2.	Chowgule & Co. Pvt.	Chowgule	19 (20)	19.11.76
3.	Lakshmi Machine Works	G V Naidu	15 (15)	20.11.74
4.	Atul Products	K.Lalbhai	8 (19)	31.10.75
5.	Anil Starch Products	K.Lalbhai	2 (19)	4. 9.80
6.	Cable Corpn. of India	Khatau	36 (46)	20.12.71
7.	Neesha & Co.(Firm)	Khatau	36 (46)	14. 9.71
8.	Bharat Forge Co.	Kirloskar	Nil(15)*	29.10.79
9.	Kirloskar Brothers	Kirloskar	12 (15)	13.11.79
10.	Kirloskar Oil Engines	Kirloskar	4 (15)	3. 5.76
11.	Mysore Kirloskar	Kirloskar	8 (15)	31. 1.81
12.	Macneill & Magor	Macneill&Magor	23 (37)	23.12.77
13.	Southern Asbestos Cement	Madras Cement	8 (11)	15.10.80
14.	Indian Dyestuff Inds.	Mafatlal	20 (20)	29. 2.80
15.	Mahindra & Mahindra	Mahindra	8 (13)	31.10.75
16.	Mahindra Sintered Pdts	Mahindra	8 (13)	5. 2.79
17.	Modi Rubber	Modi	3 (14)	27.12.80
18.	Modi Spg. & Wvg. Mills	Modi	8 (14)	23. 6.76
19.	Modi Spg. & Wvg. Mills	Modi	3 (14)	10.12.79
20.	Modi Spg. & Wvg. Mills	Modi	9 (14)	27. 9.80
21.	Modipon	Modi	10 (14)	19. 2.76
22.	Carborundum Universal	Murugappa	10 (13)	30. 5.77
23.	Bombay Dyeing & Mfg. Co.	Nowrosjee Wadia	1 (8)	30.11.78
24.	E.I.D Parry (India)	Parry	5 (9)	21. 2.77
25.	Batliboi & Co. Pvt.	Prataplal	18 (11)	26.12.75
26.	Dharangadhara Chm Works	S P Jain	1 (14)	2.12.77
27.	Kishco Cutlery	S P Jain	7 (14)	21.11.77
28.	Aluminium Inds.	Seshasayee	Nil(6)*	25. 7.84
29.	Delhi Cloth & Gen. Mill	Shriram	2 (14)	15. 3.79
30.	Shriram Fibres	Shriram	2 (14)	17. 8.79

S. No.	Name of the Company	House Association	No. of inter-connected Companies	Date of order under the MRTP Act
	1	2	3	4
31.	Simpson & Co.	Simpson	29 (29)	4. 1.77
32.	J.K. Chemicals	Singhania J.K.	28 (34)	31. 5.77
33.	Seven Seas Transportation	Singhania J.K.	Nil(34)	21. 7.75
34.	Asiatic Oxygen	Soorajmull	1 (9)	22.11.78
35.	Singer TVS	TVS	15 (22)	29.11.76
36.	Sundaram Clayton	TVS	14 (22)	28. 9.76
37.	Wheels India	TVS	18 (22)	27. 9.71
38.	Ballarpur Industries	Thapar	17 (33)	28. 2.76
39.	Ballarpur Industries	Thapar	23 (33)	28.10.77
40.	Bengal Ingot Co.	Thapar	8 (33)	20. 9.76
41.	Crompton Greaves	Thapar	9 (33)	30. 5.77
42.	Greaves Cotton & Co.	Thapar	9 (33)	19.10.76
43.	Karamchand Thapar& Bros(CS)	Thapar	18 (33)	2. 7.77
44.	Ruston & Hornsby (India)	Thapar	8 (33)	27. 9.76
45.	East India Corpn.	Thiagaraja	25 (31)	30. 9.76
46.	Bharat Radiators Pvt.	Walchand	17 (20)	5. 2.76
47.	Premier Automobiles	Walchand	2 (20)	8. 8.74
48.	Walchand Nagar Inds.	Walchand	8 (20)	6. 6.75

Source: Information on number of inter-connected companies is collected from the Orders issued under the MRTP Act on the respective dates specified in col. 4. For Orders issued upto March 1980, we depended on INDIA, Ministry of Law, Justice and Company Affairs, **Orders Passed by the Central Government Under Section 21, 22 & 23 of the MRTP Act, 1969**, vol. I & II, 1982 and for the subsequent Orders various isssues of the **Company News & Notes.** Figures in brackets indicate the number of companies shown in different houses as on 31.12.1978 in the reply to the Lok Sabha Unstarred Question No. 8229 given on 24.4.1979 (see **CNN** April 1979, pp. 87-101). Except in the case of Aluminium Industries Ltd. in all other cases the house association in col.2 is based on this list.

Appendix II : List of Selected Inter-connected Undertakings whose Registration Under the MRTP Act has been Cancelled or Deleted

S. No.	Name of the Company	House Association before De-registering	Date of De-registration
	1	2	3
1.	Incon Steel Pvt. Ltd.	Bajaj	5. 2.80
2.	Jamnalal Sons Ltd.	Bajaj	10. 6.80
3.	Jeewan Ltd.	Bajaj	18. 8.80
4.	Shree Laxmi Pkg & Allied Pdts Ltd.	Bangur	1. 5.80
5.	Hindustan Gas & Inds. Ltd.	Birla	17.11.76
6.	National Insulated Cable Co. Ltd.	Birla	25.10.78
7.	Somany Pilkingtons Ltd.	Birla	18. 8.80
8.	Modern India Construction Co.Ltd.	Birla	24.12.82
9.	Hidustan Saintaryware Inds. Ltd.	Birla/BD.Somani	2.11.83
10.	Thana Electric Supply Co. Ltd.	Bombay Suburban	3.10.78
11.	Tube Suppliers Ltd.	Chidambaram	9. 1.78
12.	Tubes & Malleables Ltd.	Chidambaram	9. 1.78
13.	Tuticorn Alkali & Chemicals Ltd.	Chidambaram	6. 2.79
14.	Automobile Rubber Prd. Pvt. Ltd.	Chidambaram	1. 5.80
15.	Commercial Aids Pvt. Ltd.	Chidambaram	1. 5.80
16.	Southern Chloro-Chemicals Pvt.Ltd.	Chidambaram	1. 5.80
17.	Southern Ebonites Pvt. Ltd.	Chidambaram	1. 5.80
18.	William Goodacre & Sons (I) Ltd.	Chidambaram	27. 4.82
19.	India Radiators Ltd.	Chidambaram	31. 5.83
20.	Western Thomson (India) Ltd.	Chidambaram	31. 5.83
21.	Camera Works Pvt. Ltd.	Chowgule	22. 3.76
22.	Ahmedabad New Cotton Mills Ltd.	K. Lalbhai	14. 8.81
23.	Cynamid India Ltd.	K. Lalbhai	20.11.80
24.	Electric Control Gear Pvt. Ltd.	K. Lalbhai	14. 8.81
25.	Shantikiran Pvt. Ltd.	Khatau	30.11.79
26.	Shantileena Pvt. Ltd.	Khatau	30.11.79
27.	Sukiran Pvt. Ltd.	Khatau	30.11.79
28.	Jayakrishna Pvt. Ltd.	Khatau	1. 5.80
29.	Shakti Industrial Wires Pvt. Ltd.	Khatau	5. 4.82
30.	Madhya Pradesh Electricals Ltd.	Khatau	7. 4.82
31.	Killick Nixon Ltd(and 6 subsidiaries)	Killick Kapadia	27.11.80
32.	Kunal Engg. Co. Ltd.	Kothari(Madras)	12. 5.83
33.	Pushpanjali Industries Pvt. Ltd.	Madras Cements	9. 1.80
34.	Ramsayee Agro Inds. Ltd.	Madras Cements	6.10.82
35.	Advertising Res & Mktg. Services(Frm)	Mafatlal	10. 8.81
36.	Mahindra Spicer Ltd.	Mahindra	8. 1.79
37.	Kent Leeds Meter Mfg. Co. Ltd.	Mahindra	16.10.79
38.	Roplas (India) Ltd.	Mahindra	11.12.79
39.	Vickers Sperry of India Ltd.	Mahindra	14. 8.80

S. No.	Name of the Company	House Association Before De-registering	Date of De-registration
	1	2	3
40.	R.B. Gujarmal Modi & Bros Pvt. Ltd.	Modi	12.11.79
41.	Synfibre Sales Corpn.(Firm)	Modi	7. 6.80
42.	Coimbatore Cotton Mills ltd.	Naidu G.V.	4. 1.82
43.	George Wills & Sons (I) P. Ltd.	Nowrosjee Wadia	16. 2.84
44.	Nowrosjee Wadia & Sons Pvt. Ltd.	Nowrosjee Wadia	28. 5.82
45.	Gherzi Eastern Ltd.	Nowrosjee Wadia	16. 2.84
46.	Botanium Ltd.	Nowrosjee Wadia	20. 2.84
47.	B.R.T. Ltd.	Nowrosjee Wadia	3. 5.84
48.	Boehringer Knoll Ltd.	Rallis	22. 4.76
49.	Bombay Oxygen Corpn. Ltd.	Ruia	12. 3.76
50.	Bradbury Mills Ltd.	Ruia	12. 3.76
51.	Ruia & Co. Pt. Ltd.	Ruia	17. 3.76
52.	Dawn Mills Co. Ltd.	Ruia	29.12.76
53.	Sterling Re-rolling Mills Pvt. Ltd.	Ruia	18. 9.78
54.	Modern Family Planning Products Ltd.	Ruia	18. 9.78
55.	Ruia Industries Pvt. Ltd.	Ruia	18. 9.78
56.	Health Products Pvt. Ltd.	Ruia	18. 9.78
57.	Ruia Steel & Agri. Farms Pvt. Ltd.	Ruia	18. 9.78
58.	Secals Ltd.	Seshasayee	17. 5.83
59.	Cloth Traders Pvt. Ltd.	Shri Ambica	7. 9.81
60.	Vulcan Lavel Ltd.	Swedish Match	3. 2.82
61.	Union Home Product Ltd.	TVS	23.11.79
62.	Trichy Steel Rolling Mills Ltd.	TVS	15.11.80
63.	Karam Chand Thapar & Sons Ltd.	Thapar	25.10.78
64.	Mather Greaves Ltd.	Thapar	25.10.78
65.	Standard Refinery & Distillery	Thapar	25.10.78
66.	Tentulia Khas Collieries	Thapar	25.10.78
67.	United Collieries	Thapar	25.10.78
68.	Rukmini Mills Ltd.	Thiagaraja	8. 1.79
69.	Sree Rajendra Mills Ltd.	Thiagaraja	9. 1.79
70.	Coimbatore Kamala Mills Ltd.	Thiagaraja	26. 5.82
71.	Loyal Textile Mills Ltd.	Thiagaraja	26. 5.82
72.	P.Orr & Sons Pvt. Ltd.	Thiagaraja	26. 5.82
73.	Saroja Mills Ltd.	Thiagaraja	26. 5.82
74.	Virudhnagar Textiles Ltd.	Thiagaraja	26. 5.82
75.	Sree Sivakami Mills Ltd.	Thiagaraja	14. 4.83
76.	V. Ramakrishna & Sons Pvt. Ltd.	V. Ramakrishna	14. 4.83
77.	Precision Bearings India Ltd.	V. Ramakrishna	18. 8.81

Source: Selected from various issues of **Company News & Notes**.

Note: House association of companies de-registered after June 1978 is based on the June 1978 and December 1978 House-wise Lists. In all the other cases it is based on ILPIC classification or information on inter-corporate investments or orders under the MRTP Act.

NOTES AND REFERENCES

1. The Draft Bill on Monopolies & Restrictive Trade Practices presented by the Monopolies Inquiry Commission (MIC) in its report became the basis for the Act. However, the Act and the recommendations of the MIC differ in some respects. While the Commission envisaged control over dominant undertakings, the Act provided for control of large sized undertakings and indusrial Houses also. The ILPIC studied the composition of 73 large industrial houses and termed 20 of them whose assets for 1964 exceeded Rs. 35 crores as Larger Industrial Houses(LIHs). For the Committee the guiding principle was that the "House should include those business concerns over which a common authority holds sway". (p.74). One of the principal criteria adopted for identifying a company as belonging to a House was that of the House controlling one-third effective equity. The Committee also took adequate note of special characteristics like persons closely associated with the House being on the Board of Directors, sole selling agency agreements and sharing of common facilities like office premises and telephones. One of the principal recommendations of the Committee was that LIHs and foreign concerns should concentrate "their resources on the development of complex and heavy investment industries which would mainly belong to the core sector".(p.190).

2. See for instance, Oza, A.N., "Putting Teeth into the Monopolies Act", **Economic & Political Weekly**, Special Number, July, 1971; Chandra, N.K., "Monopoly Legislation and Policy in India", **Economic and Political Weekly**, Special Number, 1977, pp. 1405-18; INDIA, Ministry of Law, Justice and Company Affairs, **Report of the High-Powered Expert Committee on Companies and MRTP Acts**, 1978 (also reerred to as Sachar Committee after its Chairman, Justice Rajender Sachar); Goyal, S.K., **Monopoly Capital and Public Policy: Business and Economic Power**, Allied, 1979; Khurana, Rakesh, **Growth of Large Business: Impact of Monopolies Legislation**, Wiley, 1981; Verma, D.P.S., "A Decade of MRTPC", **The Economic Times**(New Delhi), 7,8,9 and 10th April, 1981; and Paranjape, H.K., "Curbing Monopoly: Plans and Pitfalls", **Mainstream**, 10 and 17th October, 1981.

3. The lower limit was infact seen as a more radical step. For instance, the "Industrial Policy - Government Decisions", a statement issued on February 2, 1973 informs: "... the adoption of the lower limit of Rs. 20 crores as well as the definition of interconnected undertakings as provided in the MRTP Act 1969 will result in a more effective control on the concentration of economic power".

4. Goyal, **op.cit.**, pp. 26-27. The study cited a number of companies like Tata Industries, National Ecko, Investment Corpn. of India, Indian Standard Metal - all included in Tata House by the ILPIC; and Birla Cotton Spg., Electric Construction & Equipment, Indian Rayon, Oudh Sugar and Pilani Investment Corpn. - all of Birla House, which were not registered under the MRTP Act.

5. For instance, N.K. Sengupta finds that "the abolition of the managing agency removed the most important visible mark of inter - connection among companies". **Cf.** Sengupta N.K., **The Monopolies and Restrictive Trade Practices Act, 1969**, Eastern Law House, 1980, p.30.

6. .See Kumar, Nagesh, "Regulating Multinational Monopolies in India," **Economic and Political Weekly**, May 29, 1982, pp. 909-917 for details.

7. The Committee's recommendations included: (i) reduction of the requirement of one-third equity for establisling inter-connection to one-fourth; (ii)introduction of the definition of 'Group'; and (iii) bringing investment companies under the definition of undertakings.

8. See Press Note of the Ministry of Industry dated March 9, 1979. Summary of the Committee's recommendations were reported in INDIA, Ministry of Industry, **Guidelines for Industries**, June 1979, p.v-68.

9. See Goyal, **op.cit.**, p.6.

10. Paranjape, H.K., "The MRTP Amendment Bill: A Trojan Horse", **Economic & Political Weekly**, April 28, 1984, p. 725.

11. Federation of Indian Chambers of Commerce and Industry, **Pre-Requisites of Accelerated Industrial Growth**, A report of the Ad Hoc Committee headed by Bharat Ram, January, 1985.

12. See **The Economic Times**(New Delhi), March 18, 1985 and **Business Standard**(Calcutta) dated March 28, 1985 respectively for the manner in which these estimates were arrived at.

13. See the **Business Standard**(Calcutta) dated March 25, 1985.

14. The required market share for determining dominance was brought down from one-third to one-fourth in 1982 through an amendment to the Act.

15. These lists are available in the February 1976(p.53-77) and February 1977(pp. 63-84) issues of the journal.

16. See the April 1979 issue of **Company News and Notes**, (pp. 87-101). The journal is hereafter referred to as **CNN**.

17. See the reply to the Rajya Sabha Unstarred Question No. 10 answered on 25.7.1983 (Reproduced in the **CNN**, Vol. XXI, July 1983, pp. 85-90).

18. See the reply to the Lok Sabha Unstarred Question No. 471 given on February 2, 1984. (Reproduced in the **CNN**, Vol. XXII, February, 1984, pp. 52-53).

19. In the following any reference to 'Tata' or 'Birla' companies would normally mean that the respective company was identified as such by the ILPIC.

20. See INDIA, Ministry of Law, Justice and Company Affairs, Orders passed by the Central Government Under Sections 21, 22 and 23 of the MRTP Act, 1969, Vol. I, 1982, p. 570. (This publication is hereafter referred to as **MRTP Act Orders**). The order dated 31.5.1978 states that the three companies jointly own and operate a thermal plant at Trombay and all the three companies are inter-connected with each other.

21. See the reply to the Lok Sabha Unstarred Question No. 5813 answered on April 3, 1979 (Reproduced in CNN, April 1979, p. 70). In addition, it can be understood from the MRTP Orders that TISCO admitted inter-connection with eight other undertakings of the Tata Group. (**MRTP Act Orders**, vol. I. p. 574). Some other references also show TISCO to have been registered under section 26 read with section 20a (i)/a(ii) of the MRTP Act. (**MRTP Act Orders**, vol.II, p. 613, order dated 15.12.1971).

22. Going through some of the older lists of MRTP Undertakings one finds that Tata Chemicals was initially registered as a b(i) undertaking only and later it was registered under a(i) also as its assets exceeded Rs. 20 crores. Further evidence to this fact also is available in one of the orders under the MRTP Act. It was stated that the company denied its interconnection with any other company of the Tata Group. The Government felt that it was not necessary to go into the further details of interconnection as it was already registered as a b(i) undertaking. (**MRTP Act Orders**, vol. I, p.551). In 1977 it was stated that the company was registrable under a(i) also. (**MRTP Act Orders**, vol. I, p. 557, order dated 9.5.1979).

23. This view gets confirmed by the evidence available in the **MRTP Act Orders**, Vol. II, wherein it was stated that the company admitted interconnection with two other undertakings namely Lakme Limited and Internaional Fisheries Limited of the Tata Group (p. 439, order dated 18.5.1974).

24. It was explained in the order issued in connection with the application of Associated Bearing Company for effecting substantial expansion, that the company accepted interconnection with Skefko India Bearing Company. (See **MRTP Act Orders**, vol. I, p. 26, order dated 24.7.1974).

25. See **MRTP Act Orders**, vol. II, p. 448.

26. See INDIA, Ministry of Law, Justice & Company Affairs, "Report Under Section 21 (3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the case of Tata Engineering and Locomotive Company Limited, Bombay", **Reports of the MRTP Commission and Orders Thereupon of the Central Government Under Section 21, 22 & 23 of the MRTP Act, 1969**, Vol. II, Section 21, 1982, p. 352. The report was submitted to the Government in December 1971. These reports are hereafter referred to as **MRTPC Reports**.

27. In one of the replies given in the Parliament the government infact explained that in the context of "the present industrial licensing policy and the Monopolies and Restrictive Trade Practices Act only those companies are considered as companies of the Tata Group which are registered under section 26 of the MRTP Act as undertakings to which section 20(a) of the Act applies, and which at the same time either (i) figured in the list of companies identified by the Industrial Licensing policy Inquiry committee as companies belonging to the large industrial house of Tata or are (ii) interconnected with such companies." (See Reply Lok Sabha Unstarred Question 4817 answered on 27.3.1979 - reproduced in **CNN**, March 1979, p. 88). Similar explanation was given in the case of TVS, Mahindra & Mahindra, Sarabhai, Kasturbhai Lalbhai and Birla Houses also. Further evidence in this regard is available in a study of assets, turnover and PBT of large industrial houses prepared by the Monopolies Research Unit of the Department of Company Affairs. It says that information had been compiled in respect of assets, turnover and profits of companies "as belonging to industrial houses **on the basis of interconnection and other association authenticated by past studies by expert bodies as also similar information in respect of single large undertakings**". (emphasis added) See **CNN**, Nov. 1978, p. 1.

28. A house-wise distribution of the 76 companies registered under the MRTP Act during January 1980 to December 1981 was given in answer to the Lok Sabha Unstarred Question No. 1657, answered on March 15, 1982 (Reproduced in **CNN**, Vol. XX, March 1982, pp. 71-72).

29. The asset figures are taken from the **The Bombay Stock Exchange Official Directory**.

30. See reply to the Lok Sabha Unstarred Question No. 3923 provided on 17.3.1981 for a list of pending cases of default notices with regard to registration under Section 26 of the MRTP Act as on 31.12.1980. (Reproduced in **CNN**, April 1981, pp. 68-73).

31. See Kumar, **op. cit.**, p. 915.(Annexure)

32. Waldies Ltd., became a subsidiary of the company during 1983-84. Earlier Gillanders held about 36% of the equity capital of Waldies. We tried to find the possible inter-connection between Ogilvy Gillanders & Co. Ltd. and Lead Industries Group Ltd. with the help of Dunn & Bradstreet, **Who Owns Whom: United Kingdom & Republic of Ireland**, Vol. 1 & Vol. 2, 1978/79 and 1984 but were unable to find Ogilvy Gillanders or Gillanders Arbuthnot in them.

33. See the Directors' Reports to the Shareholders in the **Reports and Accounts** of Gillanders Arbuthnot & Co. Ltd. for the years ended 31st March 1982(p. 9) and 1983(p. 7) respectively.

34. See also Paranjape, H.K., (October 10, 1981), **op.cit.**, p.14, wherein it was observed that registrations under the Act were mainly of those companies with assets of Rs. 20 crores or more and of those which were found to be clearly inter-connected with them such as subsidiaries.

35. However, an examination of the earlier lists of undertaings registered under the Act reveals that Hyderabad Asbestos was initially registered as a b(i) undertaking only (**CNN**, Feb., 1977. p. 72). The provisions of section 20a(i) became applicable to it since 26.5.1979 (**CNN**. November, 1981, p. 25 and **CNN** Oct. 1982, P. 35).

36. See **CNN**, February, 1977, p. 77. It appears that the provisions of Section 20a(ii) became applicable to the company during 1979 (see **MRTP Act Orders**, vol. II, P. 335, order dated 22.9.1979).

37. The fact that Zuari Agro Chemicals did not accept inter-connection with any other Birla company is explained a little later.

38. See "Report Under Section 22 (3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the case of Hindustan Aluminium Corporation Limited, Bombay," reproduced in **MRTPC Reports**, vol. III,
p. 272. The report was submitted to the Governmment in August 1973.

39. See "Report Under Section 22(3)(b) of the Monopolies and Restrictive Trade Practices Act, 1969, in the case of Kesoram Industries and Cotton Mills Limited, Calcutta," Reproduced in **MRTPC Reports**, Vol. IV (Section 22), P. 7. The report was submitted to the Government in June 1973.

40. **Ibid.**, p. 122.

41. **Ibid.**, p. 8. See also the report on HINDALCO (note 38 above), p. 273.

42. These companies did not register under the Act till the end of June 1984. See note 30 above.

43. See note 28 above.

44. See **CNN**, May, 1980, pp. 48 & 49 and **CNN**, Aug., 1980, p. 80 respectively.

45. It is not out of place to mention that Indian Rayon was shown as one
of Aditya Birla's Indian Companies, the others being Gwalior Rayon, HINDALCO, Eastern Spg. Mills (all three shown under the Birla House under MRTP) and Hindustan Gas & Industries (de-registered under the Act in 1976). See "The Quiet Rise of Aditya Birla", **Business India**, May 7 to 20, 1984, pp. 52-62.

46. See Lok Sabha Unstarred Question No. 2607 replied on March 9, 1982 (Reproduced in **CNN**, Vol. XX, March 1982, pp. 83-86). It was explained in the reply that these companies were de-linked from the Birla Group and were transferred to the Somany Group in 1980.

47. For further evidence in this regard see **CNN** September, 1984, p. 73-74 in respect of CIMMCO; **CNN**, September, 1984, p. 61 in respect of ECE; **CNN**, October, 1984 p. 39 in respect of Century Enka; and **CNN**, September, 1984, p. 67 in respect of Indian Tool Manufacturers.

48. See **CNN**, Feb. 1984, p. 28.

49. See Reply to the Rajya Sabha Unstarted Question No. 821 provided on March 25, 1985.

50. The companies are Indian Tool Manufacturers, Central India Machinery, Upper Ganges Sugar Mills and Oudh Sugar Mills. Their assets were Rs. 23.12 crores (1982), Rs. 30.19 crores (1983), Rs. 21.02 crores (1982), and Rs. 20.57 crores (1982) respectively. The asset figures are taken from the **Bombay Stock Exchange Official Directory**.

51. For instance, it was explained in 1979 while providing a comparative picture of the assets of Tata and Birla Houses, that the data about only those undertakings which were registered under Section 20 of the MRTP Act were being compiled and the assets

figures of the houses would be higher if the data on companies to which default notices were issued. (See Reply to Rajya Sabha Unstarred Question NO. 509 given on 16.7.1979 -as reported in **CNN**, July - August, (combined) 1979, p. 70).

52. See Reply to the Rajya Sabha Unstarred Question No. 1266, answered on 19.12.1977 (Reproduced in CNN, vol. XVI, Feb., 1978, pp. 36).

53. For details of companies Inter-connected with Ballarpur Industries see the Report on the Company's proposal published in **MRTPC Reports**, vol. III, pp. 67 & 95.

54. See the Report on the Company's proposal in **MRTPC Reports**, vol. I, pp. 101-149.

55. **Ibid.**, p. 108.

56. For more details in this regard see the Commission's Report on the Company's proposal to set up a new company published in **MRTPC Reports**, vol. III, pp. 1-59. The report was submitted in March 1974.

57. See **MRTPC Reports**, vol. II, p. 220.

58. See the December 1978 List.

59. See the Dissenting Report of Prof. Paranjape in the combined report on the expansion proposals of Bajaj Auto and Automobile Products of India in **MRTPC Reports**, vol. I, p. 164.

60. See **MRTP Act Orders**, vol. II, p. 232, order dated 2.3.1979.

61. See **MRTP Act Orders**, vol. II, p. 416.(order dated 10.5.1977).

62. Kumar, **op. cit.**, p. 910.(Table)

63. See the Order dated 27.3.1984 issued under the MRTP Act regarding Dalmia Cement (Bharat)'s proposal (Reproduced in **CNN**, April, 1984, p. 37).

64. The Company Law Boards' Order is reproduced in the **CNN**, February, 1980, pp. 39-58.

65. Kumar, **op. cit.**, pp. 914-915.(Annexure)

66. See INDIA, Law, Justice & Company Affairs, **Restrictive Trade Practices in India**, vol. 1, 1979, pp. 261-263.

67. INDIA, Ministry of Industry & Company Affairs, **Report : 1984-85, p.** 24.

68. See for instance, UNCTAD, **Control in India of Restrictive Business Practices** (A report prepared by H.K. Paranjape), wherein it was stated that "some of them (companies registered under the Act) applied for deregistration later when they realized that proving "inter-connexion" was not going to be easy" (p. 3).

69. Information on de-registrations allowed during the periods Nov.-Dec. 1978 and July-Sept. 1979 could not be obtained from the journal. The period covered otherwise is 1976 to June 1984.

70. See Cyanamid India Ltd., **Annual Report**, 1979, p. 3.

71. NRSR was shown as a part of the NICCO group alongwith companies promoted by NICCO. See "NICCO's Big Bounce Back", **Business World**, October 22-November 4, 1984, p. 73.

72. Roplas India Ltd., **Prospectus**, dated April 23, 1979, p. 5.

73. See Goyal, S.K., K.S. Chalapati Rao and Nagesh Kumar, "Small Scale Sector and Big Business", a study of the Corporate Studies Group, Indian Institute of Public Administration, 1984, (mimeo). It is also not surprising to find that Roplas along with Vickers Sperry

and Mahindra Spicer (both de-registered under the Act) is being considered as a part of the 'Mahindra and Mahindra' group even after de-registration. See "Mahindra & Mahindra: Making up for Lost Time", **Business India**, March 15-28, 1982, p. 47.

74. See the order dated 5.3.1982 on the Company's Proposal in **CNN**, April 1982, p. 35.

75. In all 2,214 companies were sent default notices till the end of 1984, for their liability to register under Section 26 of the Act. Out of these only 642 got registered and in another 982 cases the default notices were vacated. Out of the remaining companies some had obtained stay orders from Courts. (See INDIA, Ministry of Industry & Company Affairs, **Report : 1984-85**, pp. 24-25). A few companies have been under default notice for a long time, but are not registered yet. See reply to the Lok Sabha Unstarred Question No. 3923 provided on 17.3.1981 for cases like Ashoka Cement (Sahu Jain-12.12.72; Hindustan Times (Birla-18.6.74); Mohan Gold Water Breweries (Mohan Meakin-24.12.74); Gangeshwar (Sawhney-14.7.71); Tobu Enterprises (Shriram-6.11.74); Dalmia Dairy Inds.(Dalmia J.-25.6.75); .Haldibari Jute (Soorajmull Nagarmull-20.4.73); and National Standard Duncan (K.P. Goenka-5.7.75). (Reproduced in **CNN**, April 1981, pp. 68-73).

76. For instance, on the basis of ILPIC classification it was estimated that the assets of Birla and Tata Houses in 1976 were Rs. 1300 crores and Rs. 1100 crores against the reported assets of companies of the two Groups under the MRTP Act at only Rs. 975 crores and Rs. 980 crores respectively. See Goyal, S.K., **op.cit.**, pp. 70-71.

77. For a discussion on the implications of the changes proposed through the MRTP (Amendment) Bill 1983, see Paranjape, H.K., "The MRTP Amendment Bill: A Trojan Horse", **Economic and Political Weekly**, April 28, 1984, pp. 715-729.

78. See INDIA, Ministry of Industry & Company Affairs (Department of Company Affairs), **Report : 1984-85**, p. 24.

79. In his speech delivered at a seminar organized by the Bengal Chamber of Commerce & Industry Mr. S.M. Dugar, Joint Secretary in the Department of Company Affairs said that as a result of the amendment about 1500 more companies would get covered by the Act. (As reported in **Economic Times**(New Delhi), June 10, 1984).

80. Paranjape (1984), **op. cit.**, p. 717.

81. For the way in which inter-corporate investments are used in the control mechanism of Houses see Hazari R.K., **The Structure of Corporate Private Sector**, Asia, 1966 and Singhania, Vinod K., **Economic Concentration Through Inter-Corporate Investments**, Himalaya, 1980.

82. The Monopolies Inquiry Commission discussed specifically the issue of political donations and observed that "big business has the power to corrupt and that the danger that the power may be extensively used is not imaginery". (See INDIA, **Report of the Monopolies Inquiry Commission**, 1965, vol. I, p.136).

83. The need to set up an agency to collect information on large industrial sector was felt by the ILPIC. Similar observations were also made by the Mahalanobis Committee and the MIC.

WORKING PAPER NO. 13

MULTINATIONALS AND SELF-RELIANCE : A CASE STUDY OF THE DRUGS AND PHARMACEUTICAL INDUSTRY*

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Self-reliance has been a declared goal of planning India, explicitly at least since the Third Plan. Therein it is stated that "...special emphasis has to be placed on industries such as steel, coal, oil, electric power, machine building and chemicals...(as) the development of these industries is an essential condition of self-reliant and self-sustained growth".[1] Attempts made to create conditions to reduce the dependence on foreign aid and imports included a liberal policy towards foreign private investment. the April 1949 Statement on Foreign Investments stipulated parity between foreign and Indian capital, permitted the repatriation of profits and provided assurances against nationalization, with "fair and equitable" compensation in the exceptional case of acquisition.[2] This liberal attitude, which included concessions not envisaged in the Industrial Policy Statement made exactly a year earlier,[3] was intended to obtain private foreign assistance for the development of the Indian economy. It was believed that foreign capital would: (a) supplement domestic savings; (b) provide the requisite sophisticated technology and (c) the foreign exchange component of the capital outlay of the projects.

The government's liberal policy towards foreign private capital was strongly criticized by sections of Indian big business till about 1955. Ironically, in 1953, FICCI (Federation of Indian Chambers of Commerce and Industry) passed its now famous "Swadeshi Resolution" urging the Congress government to respect the principles of Swadeshi by regulating more strictly the in flow of foreign capital.[4] On its part, the government believed that indigenous political power was sufficient to ensure tha the inflow of foreign capital and technology did not lead to a dependent economy.[5] This explicit belief governed official policy towards foreign equity participation, where the clause permitting majority foreign holding as an exception virtually became the rule in a number of industries, including the drugs and pharmaceutical industry.[6] Moreover, as H.K. Paranjape has pointed out, "the need to keep aid-giving governments and the World Bank happy was an important reason for the soft approach adopted by the government towards foreign collaborations and foreign investment".[7]

The liberal policies towards foreign capital facilitated the dominance of MNCs in the Indian drug industry among others.[8] The drug industry is a vitally important one because of its "role... in maintaining the health of the nation". Yet, even in this industry, the government made virtually no attempt to regulate the multinationals in national interest. After independence most multinational drug companies established themselves as trading concerns with insignificant initial investment.[9] Initially they imported finished drug formulations from the parent company and marketed them. Subsequently, formulations were imported in bulk, and repacked localy. Later, because of belated government pressure, the ingredients of the formulations were imported as bulk drugs, which were processed into formulations on a "job-work" basis by Indian concerns. The Hathi committee noted that "all these activities were carried on without investing in factories or employing technical personnel".[10]

Between 1952 and 1965, multinationals in the drug industry received "a big impetus to boost their turnover" as "permission letters" to produce 364 items were granted to 15 leading foreign units.[11] Only four of these items were bulk drugs, the rest being formulations "many of which could have been easily manufactured by the Indian sector". These formulations included what the Hathi Committee termed "house-hold remedies' which did not require a doctor's prescription, for example, "cough mixture, ring worm ointments, 'health sats', grip mixtures, laxative tablets, eye drops, malted tonics, digestive tablets" and so on. In a significant number of these cases no capacity was specified.[12]

In the 1965-1967 period, in the background of developing shortages in the drugs industry, the devaluation of the rupee and the liberalization of import policy, licensing policies were further liberalized. In 1966-67, existing manufactures were allowed to diversify production into the manufacture of "new articles" and to expand licensed or registered production capacities up to 25 per cent, subject to the condition that no additional plant and machinery other than indigenously procured balancing equipment, was installed.[13] Later, in 1970, this concession was withdrawn, and the diversification which had taken place earlier had to be regularized through "carrying-on-

business" (COB) licence. Under this new procedure, 12 foreign and five Indian companies obtained COB licences covering 215 formulations and 20 bulk drugs.

The above liberal policies, the Hathi committee noted, were mainly responsible for the foreign hold over the drug and pharamaceutical industry.[14] This resulted in an outflow of foreign exchange amounting to about Rs 26 crores towards the payment of royalty, technical fees and dividends during the period 1969 to 193 alone. Further, this figure did not include the additional foreign exchange remittances in the form of purchases of bulk drugs, intermediates and so on by the foreign companies at prices dictated by their foreign princi;als. "These prices", the Hathi Committee averred, "bear no relation to either the cost of manufacture of the final products or international prices.[15]

The Hathi Committee also higlighted the fact that the MNCs in the drugs industry "usually discourage" their R&D staff from developing "technology on their own". These practices made "our industry permanently dependent on overseas expertise and technology".[16]

Taking into account the above facts, the Hathi committee pointed out that the "continued presence... of the highly profit motivated multinational sector can but promote only the business interests of this sector. Their presence in India, as a part of their global effort to capitalize on human suffering in an organizsed manner, must therefore cease as early as possible". The majority in the committee therefore "strongly recommend(ed) that the multinational units in...drugs and pharmaceuticals should be taken over by Government and managed by the proposed National Drug Authority".[17] All members however agreed that the drug industry should not be eligible to preferential treatment as specified in the guidelines of FERA 1(Foreign Exchange Regulation Act) of 1973 and Appendix I of the Industrial Licensing Policy of February 1973. The Committee recommended that foreign drug units should not only "be directed to bring down their equity to 40% forthwith...(but should) forther reduce it progressively to 26%." Moreover, it was recommended that the dilution of foreign equity "should not take the form of dispersed holding(s)...by a large number of Indian nationals...because such widely dispersed holding will not, in anyway, reduce the effective

control of the foreign equity shareholders. In order to serve national objectives, it would be desirable for Government to purchase these shares either by public sector undertakings which are directly or indirectly connected with the manfacture of drugs/chemicals or by public financial institutions or by Government itself."[18]

The Hathi Committee consisted of 15 members and included, apart from its chairman Jaisukhlal Hathi, three other influential Congress MPs, Yashpal Kapur, Vasant Sathe and C.M. Stephen (the last two are now Cabinet Ministersl). nonetheless its major recommendations, as enunciated above, were not accepted by either the congress government or its Janata successor. Jaisukhlal Hathi himself revealed in an interview that most of the civil servants who deposed before the Committee were sympathetic towards MNCs.[19] Apart from the bureaucracy, decisive sections of the political leadership were evidently influenced by the foreign drug lobbies (prominent among which is the Organisation of Pharmaceutical Producers of India - OPPI) to reject these recommendations.[20] Moreover, as indicated earlier, the government had, more or less, consistenly followed a liberal policy towards foreign private capital. In such an environment, to expect that the same government would nationalize well-entrenched foreign companies would appear naive.

MNCs and FERA

The pervasive influence of the pro-MNC lobbies in top government circles has undoubtedly influenced the formulation of FERA. Under FERA, all corporate bodies with 40 per cent or less of foreign equity holding are considered indigenous concerns. But, according to the Industrial Licensing Policy Committee (ILPIC) report of 1969, control of only one-third of "effective equity" (that is, the shareholding not controlled by state-sponsored financial institutions, or state and Central Governments which do not generally interfere in the management of the company) is adequate to "provide a reasonable index of 'controlling interest'". This, in terms of the ILPIC's own findings, is a conservative index.[21] The Reserve Bank of India has defineda company as foreign controlled if 25 per cent or more of the shareholding is held by a single foreign company. Even in the United States of America, the leading protagonist of the "rights" of foreign capital, all companies with 10 per cent or

more of foreign equity are considered "foreign". In Canada, the criterion is as low as 5 per cent.[22] In the West, definitions of freign control are based on the fact that a block control of 10 per cent of equity, where shareholdings are dispersed, and when financial participation is accompanied by restrictive collaboration agreements, is sufficient to ensure control of an undertaking. Thus the FERA definition is an extremely liberal definition of foreign control. It has indeed facilitated the expansion of foreign companies by recognizing them as Indian after a relatively insignificant reduction in foreign equity. A company with 51 per cent foreign equity is categorized as a foreign subsidiary under the Companies Act; it, however, becomes an Indian company if the foreign shareholding is reduced to 40 per cent.

The preamble to FERA does not even explicitly specify that the intension under the Act is to regulate foreign capital. It is in fact described as "an Act to consolidate and amend the law regulating certain payments, dealings in foreign exchange and the import and export of currency and bullion, for the conservation of the foreign exchange resources of the country and the proper utilization thereof in the interests of the economic development of th country". Thus, on a number of occasions, foreign companies have been permitted to retain a higher proportion of foreign equity provided they used their earings for investment in India, rather than remitting them abroad.[23]

Moreover, with the dilution proposals, foreign companies are being given liberal expansion licences even in low technology areas.[24] For instance, colgate Palmolive which is engaged in the production of the "lowest of low priority and low technology activities has been granted a licence to manufacture of tonics".[25]

Foreign concerns that have complied with FERA have generally stipulated in their Articles of Association the right of the parent company to appoint or to remove the top management. for instance, as long as the equity shareholding by Unilever, U.K., in Lipton Tea (India) is at least 25 per cent, and of Warren Plantations Holdings, U.K., in Warren Tea is at least 40 per cent, the parent companies shall have the right to appoint or remove the managing directors in the "Indian" companies. Similarly, as long as Chese-bourgh-Ponds, USA, is a member

of Ponds (India), it can appoint or remove one-third of the total number of directors, including the managing director(s). In the drug industry, May and Baker, UK, retains the right to appoint or remove one-third of the directors, including the managing director, in May and Baker (India) as long as it holds at least 26 per cent of equity; whereas Schering, USA, will appoint or remove one-third of the directors, as well as the chairman and managing director(s), in Fulford (India), even while retaining a mere 10 per cent of equity share.[26]

To sum up therefore, the cumulative effect of FERA has been to disguise continuing foreign control, thereby alowing the expansion of foreign capital in India. In this paper therefore we shall treat all drug companies with a foreign equity particpation of at least 10 per cent as foreign companies.

Even the implementation of FERA has been affected by the influence of pro-MNC lobbies, inside and outside the government. Despite the unanimous recommendation of the Hathi Committe, the new drugs policy provides that groups of companaies producing drug intermediates for the production of high technology bulk drugs as well as high technology bulk drugs from the basic stage and formulations based thereon with an overall ratio of 1:5 of bulk drug consumption (from own manufacture) to formulations from all sources, could retain upto 74 per cent of foreign equity. This policy, which constituted the government's response to the Hathi Committee recommendations is obviously a capitulation "to the presures of multinationals".[27]

The claim incorporated in the new drugs policy that foreign companies employed advance technology and hence could be premitted to retain a high proportion of foreign equity has not been substantiated. The Hathi Committee's findings in this regard were that foreign drug companies invested only 1.1 per cent of their turn-over in R & D in India during 1973, in contrast with 12 to 15 per cent in the advanced capitalist countries.[28] to identify the companies producing high technology bulk drugs and hence eligible for concession of retaining more than 40 per cent of foreign equity, the government appointed a committee on high technology which submitted its report in October 1979.

The main criteria adopted by the commitee in the definition of "high technology" were the following:

(1) Isolation and extraction involving sophisticated process such as counter current liquid extraction, repeated chromatography or narrow cut fractionation;

(2) Fermentation processes; use of enzymes for chemical transformation.

(3) The steps of operations involved in a chemical synthesis;

(4) Reaction temperatures above 250.6 or below(-) 30.C;

(5) Reaction pressures of 10 atmospheres and above;

(6) Use of potentially explosive materials;

(7) High temperature vapour phase catalytic processes;

(8) Use of toxic materials;

(9) Purification and separation by different types of sophisticated techniques;

(10) Careful on-line process controls;

(11) Degree of sophistication employed to ensure health safety and quality;

(12) New drugs discovered in India involving detailed pre-clinical labouratory and clinical trials.[29]

It will be evident from points number (8), (9), (10) and (11) that any drug producing company can be considered to be a "high technology" company. Further, after the committee submitted its report in Octoer 1979, no review has been carried out. Moreover, the government has declared that "the need and scope for review of the findings of the Committee...will be considered in the light of representtions received from the individual companies concerned".[30] In other words, only representations from the concerned drug manufactures can initiate, and determine the scope of, the review. Views of scientists, doctors and consumers are apparently considered irrelevant.

The carte blanche given to drug companies by the committee on high technology has led to some piquant situations. for instance, while the Deputy director, National Chemical Laboratory, Pune, has stated that in the production of salbutanol, the process involved low technology, the committee has concluded, on the basis of the extremely generous definition given above, that the process involved high technology. The government consequenty wrote to the Director, National Chemical Laboratory, and the latter clarified that his subordinate was not aware

of the criteria employed by the committee.[31] On the basis of the committee's obviously unscientific classification, the government has permitted Hoechst, leading foreign concern, to manufacture drugs already being produced in the small-scale sector. Moreover, the grant of an industrial licence to Glaxo Laboratories to manufacture salbutanol for which technology is indigenously available, is under active consideration.[32]

Sustained lobbying by pro-MNC groups has led to substantial modifications in the already liberal new drugs policy, with further concessions to the drug MNCs. for instance, in the sphere of industrial licensing the new drugs policy had stipulated that the criterion for the regularization of capacities would be the highest production actually achieved in any year during the three-year period ending 31 March 1977.[33] The foreign drug lobby represented by OPPI, however, wanted regularization on the basis of actual production in 1980,[34] and the government has recently decided to regularize liberally all existing installed capacities as of 4 September 1980, in disregard of the earlier stated policy.[35]

The drugs and pharmaceutical industry is considered to be one of the, if not the, most multinational of modern manufacturing industries with the leading firms exercising "great oligophlistic power".[36] In 1974, the top 30 multinational companies accounted for 52 per cent of the total world market economy in pharmacetical sales.[37] The degree of dominance by individual giants is not so apparent over the drug market as a whole because of the extremely heterogeneous nature of the pharmaceutical market. Individual enterprises tend to specialize in sub-markets leading to a concentration within product clases.[38] For example, in 1973, according to Roche's own estimates, their two main tranquillizer formulations, Librium and Valium, held more than a third of the entire world tranquillizer market,[39] while G.D. Searle's, two formulations, Aldactone and Aldactazide, accounted for 20.3 per cent of the world diuretics market.[40]

This oligopholistic position obtains despite the fact that the drugs industry "enjoys practically no economies of scale in production...(as) the active ingredients are normally manufactured in

relatively small volumes". Therefore, in production, the large MNCs have no particular superiority over smaller companies, and the "economies of scale" argument cannot be used to justify the operations of the large foreign drug companies.[41] The "superior" market performance of the drug MNCs is due, as the Hathi Committee noted, to "high pressure sales techniques coupled with distribution of medical samples on a liberal scale to the medical profession....(while together with) attractively got-up medical literature and international brand names of drugs appearing in advertisements in foreign medical journals with of drugs appearing in advertisements in foreign medical journals with which top consultants in the medical profession were acquanted, played their part in popularising the drugs of foreign campanies". The oft-repeated claim by foreign drug companies that their products contain "something plus" over the products of identical composition marketed by Indian units was found to be just so much salesmanship.[42] In fact, as we shall see, their products are sometimes found to be of dubious therapeutic value, if not positively dangerous.

In the case of India, the oligopolistic nature of the operations of foreign concerns is disguised by the apparent competition between undertakings which are actually affiliates of the same MNC. for instance, both Warner Hindustan and Parke Davis are affiliates of Warner Lambert, U.S.A.; Roussel Pharmaceuticals and Hoechst Pharmaceuticals are affiliates of Hoechst, F.R.G., Glaxo Laboratories and Biological Evans are affiliates of Glaxo Holdings, U.K.,[43] and Geoffrey Manners, Wyeth India (Pvt). Ltd, Wyeth Laboratories Ltd and John Wyeth and Brothers Ltd, are all affiliated to American Home Products Corporation, U.S.A.,[44] However, the government seems to be blissfully ignorant of these facts, so far as the implementation of FERA and the drugs policy is concerned. The myth of the "competition" between foreign drug companies, often affiliated to the same MNcs, is sedulously maintained and propagated, not only by OPPI but also by government spokesmen.

Foreign companies promote a product differentiation under which the same basic drug is marketed under different brand names. B V Ranga Rao found that as many as 406, 308, 155, 126 and 115 formulations (under different brand names) are marketed for Vitamin B complex, multivitamin tablets, Chloramphenicol, Vitamin B 12, and Tetracycline respectively.

45 Such instances can be multiplied. Product differentiation of this type is not only illusory, but, because of the marketing techniques employed by foreign concerns referred to earlier, strengthens market imperfections even in the presence of many companies formulating the same basic drug. Since, accordng to one estimate, drug companies in India spend as much as 18 per cent of the turnover on sales promotion, on an average, this product differentiation leads to socialy wasteful expenditure, the costs of which are ultimately transferred to the consumber through high prices.[46] Some foreign companies spend even more; for example, Pfizer spend more than 20 per cent of the total net sales on sales promotion in 1975-76.[47]

Moreover, a large bulk of these formulations is of little therapeutic value. The WHO expert committee on the selection of essential drugs estimated that out of the 30,000 formulations sold under various brand names, a range of just 200 active drugs could cover the health needs of a majority of developing nations.[48] The Hathi Committee recommended a list of just 116 esential pharmaceutical products, including bandages, plasters, phenyl and so on. The tremendous waste of national resources caused by these activities of pharmaceutical firms can be imagined. It is now well known that several formulations have been banned, severely restricted or discarded (as obsolescent) in the Western markets but are still being sold by MNCs in developing countries like India. For instance, most anti-spasmodic combinations sold in India contain amidopyrin.[49] Furthermore, people in the developing countries have been used as guinea pigs by the drug MNCs, whose influence is so pervasive that they have been able to utilize the services of the prestigious WHO for this purpose. In India, for example, the WHO and the Indian Council of Medical Research (ICMR) imported for trial a cholera vaccine which was not included in any pharmacopoeia, without the permission of the Drugs Controller.[50] Recently, Hoechst Pharmaceuticals advertized through a two-page supplement in the daly press about the company's "25 years of service in India." Therein it was stated that the company had sought sanction from the Drugs Controller of India to conduct human trials of a new drug. HL 725, for hypertension. However, this drug, according to Hoechst itself, is only "in clinical phase I trials in West Germany".[51]

Though hypertension is the "number one killer" in the West, human trials are to be carried out first in India, even before clinical trials are completed in the West. The popular antidiarrhoeal formulation, Lomotil, manufactured by Searle, is still widely sold in India, although the British Medical Journal has published articles since 1976 warning that the drug is highly dangerous for young childern.[52] There are also the infamous cases of the Genetic Control of Mosquitoes Unit (GCMU) project, the bird migration and arbovirus studies at the Bombay Natural History Society, the Ultra Low Volume Spray experiments for urban malaria control at Jodhpur, the Pantnagar Microial Pesticides project, as well as some other research projects undertaken in West engal in collaboratin with the Johns Hopkins University, USA in the early 1970s which the Public Accounts Committee for the Fifth Lok Sabha exposed in its April 1975 report as "projects...closely concerned with the collection of vital virologica, epidemiological or ecological data, which are well capable of being used against the security of the country and that of our neighbouring countries"[53] In the case of the GCMU project it was brought out that the U S Armed Forces, the WHO and the ICMR, had all collaborated.[54] This is further evidence of the dubious role on occasions played even by the WHO and the gullibility of the ECMR, though these organizations are the very ones entrusted with the task of protecting the Indian people from the depradations of the drug MNCs.

Apart from the above cases of the use of dangerous drugs, medical experts have found a large number of popular formulations to be of dubious medicinal value. AR Phadke has shown in a recent paper that some of the most popular analgestic-antipyretic (pan killing and fever reducing) formulations sold in the country, al contain aspirin i combination with other analgesics. Yet standard text-books on pharmacology, for exaple by Goodman and Gilman, categorically state that "the many mixtures of Aspirin with actamenophen, or phenacetin and often with caffeine and other drugs are promoted with claims that they provide more analgesia None of these claims withstand critical scrutiny. Inmost clinical trials, relief of pain by an analgestic mixture has not been superior to that of Aspirin alone."[55] However, whereas Aspirin costs only two paise per tablet, Anacin, Aveda plus, Aspro and Powerin,

retail at 8.8,10 and 20 paise per tablet respectively. Thus the consumer pays more, the drug companies earn more, for products involving "pure waste" of these ingredients. Such examples can be multiplied.[56]

The Hathi Committee, in an effort to curb the social waste incurred in the sale of such irrational and spurious formulations, recommended a phased abolition of brand names. Predictably the OPPI and other drug lobbies lobbied against the acceptance of this only five drugs were notified whose single ingredient formulation could no longer be sld under brand names: (i) Analgin, (ii) Aspirin, (iii) Chlorpromezine, (iv) Ferrous Sulphate and (v) Piperazine and its salts. The notification for the same was issued only on 17 January 1981, almost three yars after the policy decision. Hoechst, the manufacturer of Novalgin went to court, and got a stay order from the Delhi High Court, Later, Pfizer, a manufacaturer of Piperazine, also obtained a stay order from the Delhi High Court.[57] Thus a policy enforcing the use of generic names that would render standardization and quaity control of pharmaceutical products easier, has not only been implemented haltingly and in a half-hearted manner but "stayed" by the judiciary.

The supposed transfer of advanced technology by the drug MNCs has been another myth commonly used to advocate the expansion of their operations in India In the first place, foreign companies are primarily interested in marketing formulaions under brand names, in order to maximize profits, rather than in the production of the less profitable bulk drugs. For example, the share of the MNCs in the manufacture of many vital drugs in bulk form (efore the annoucement of the new drugs policy), like Tetracycine HCI, Analgin, Thiacatezone, Aspirin, Diphtheria Toxiod and Tetanus Toxiod, was insignificant. But, at the same time, they marketed about 80 per cent of the total formulations of antibiotics, vitamins, cough syrups, analgesics and antirheumatics, and over half the tonics sold.[58] The situation has not changed with the ew drugs policy. In 1978-79, FERA drug companies produced only 16.7 per cent of the total bulk drugs consuiption, whereas the public sector, the Indian private sector and the small-scale sector produced 14.6, 22.3 and 5.9 per cent respectively, Import of bulk drugs amounted to 40.5 per cent of requirements costing Rs. 150 crores. But the FERA companies

accounted for the production of 43.8 per cent of formulations, while the corresponding figures for the public, Indian private and small-scale sectors were 5.7,32.5 and 18.1 per cent respectively.[59]

Furthermore, the foreign drug companies have curtailed the production of vital formulations whose prices have been fixed by the Drug Price Control Order of 1979. Currently a number of formulations used in the treatement of major diseases like tuberculosis, asthma, epilepsy, and so on, are not easily availale in the market. One foreign drug company has closed down its entire department making a group of six formulations used in the treatment of tuberculoisi, on the ground of "continued losses". At the same time, the production andprices of durgs not covered by the Drug Prices Control Over have increased constantly.[60] This, of course, is inevitable in view of the MNC affiliates' single-minded interest in profitability, rather than in the provision of cheapter essential medicines for the Indian people. The case of Pfizer also reveals the same tendencies.

TABLE - I

CAPACITIES AND PRODUCTION OF PFIZER INDIA LTD.

Products	Licensed Capacity (tonnes)	Production (tonnes) 1978	1979
INH	80	45	52
PAS & its salts	110	90	94
Terramycin	14	53	54
Protinex	100	269	290

SOURCE: J S Majumdar, "Instruments of Policy", paper read at Drugs Seminar, 1981.TABLE - I

From Table-I it is evident that while Pfizer maufactured considerably less than its licensed capacity of two vital basic drugs. INH and PAS andits salts, itsproduction for exceeded the licensed capacity for itsbranded formulations, Terramycin and Protinex. Instead of producing vital bulk drugs, the drug MNCs are increasingly entering into the production of low technology and low priority consumer goods. For example, Warner Hindustan produces Chicklet chewing gum, Halls vapour action lozenges; Rackitt and Colman produces Robin Ultramarine dyes and Cherry Blossom shoe polish; Johnson and Johnson produces Carefree sanitary napkins, baby power, baby shampoo and so on. It seems that the thrust of these companies' production efforts is not towards

the manufacture of technology-intensive vital drugs, but towards maximizing sales of low-technology-based and often superfluous formulations and consumer goods for the elite market.

Secondly, R&D undertaken by MNCs is generally confined to and relvant for, parent countries. The Conference Board survey noted that "only a negligible share of U S overseas R&D found its way to the Developing Countries of the world."[61] This is only to be expected since, for obvious reasons, MNCs seek to perpetuate the technological dependence of the developing countries. In the case of the drug industry, the Hathi Committee found that the MNCs actually discouraged independent R & D by the Indian staff. The Sandoz group, for example, spends nearly 9 per cent of its world-wide turnover on R & D, whereas its Indian subsidiary spend only 1.4 per cent of its turnover on R & D in 1965.[62] Table II provides detailed data on the R & D expenditure by 43 FERA drug companies. These figures, however, are inflated as they include expenditures on marketing research, and even in some cases on quaity control in order to enable the drug MNCs to benefit from the tax concession for R & D expenditure. Despite various tax incentives offered by the government and high profitaility, the R & D outlays are dismaly low. Twenty-seven out of the 43 companies spend 1 per cent or less of their turnover, with only four companies spending more than 3 per cent. Furthermore, there is little evidence to show that even this R & D activity is relvant to India's needs.[63] Moreover, whatever technology is actually transferred by the drugs MNC to its affiliate remains a closely guarded secret and hence it can best be termed a "private" transfer. Through restrictive clauses in foreign collaboration agreements, sub-licensing by the affiliates is barred, which often results in multiple, imports of technology.

Thirdly, the entry of foreign companies has actually hampered the indigenous development of technology by Indian drug companies. The case of the Bengal Chemical and Pharmaceutical Works Ltd. (BCPW) is ilustrative. The BCPW is a pioneering Indian firm (recently taken over by the government) which, by the 1950s, had uscceeded in developing processes for the production of some vital drugs without any foreign collaboration, for example, Thiacetazone (started in 1952), Nikethamide (1950s); Nicotinamide (1952), Nicotinic acid (1946), Dapsome (1950),

Chlorpropamide (1959) and so on.[64] We shall relate below one instance of how foreign drug companies sought to affect negatively the BCPW's operations.

TABLE-II

FOREIGN DRUG COMPANIES' OUTLAYS ON R & D IN 1975
(percentage of turnover)

Range	No. of companies
(1) Negligible expenditure (less than 0.33 per cent)	9
(2) Upto 1 per cent	18
(3) Between 1 and 2 per cent	7
(4) Between 2 and 3 per cent	5
(5) More than 3 per cent	4
Total No of companies	43

Source: Based on Statement No.LT-1196/77 placed before the Lok Sabha in 1977.

The BCPW patented its own process of manufacturing Chlorpropamide, an anti-diabetic drug. It applied for a licence in 1959 which the government granted only in December 1961. This delay enabled Pfizer to get more time to popularize its product, brandnamed Diabenese, which it had been marketing since 1957 using imported Chlorpropamide. A subsidiary of Pfizer, Dumex Pvt Ltd, was also given a licence to produce Chlorpropamide in January 1961 ahead of BCPW. Pfizer kept the licence unutilized and continued to import the drug. In 1964-65 alone, Pfizer imported Rs. 1.2 lakhs worth of Chlorpropamide from the USA.[65] Furthermore, attempts were made to stop the BCPW from producing the drug. in 1962 Hoechst and Pfizer filed a suit in the Calcutta High Court claiming that the BCPW's process constituted an infringement of a patent held by Hoechst, FRG, under which Pfizer had been given a licence to manufacture Chlorpropamide. The case dragged on for eight years, and in 1970 the court found that Hoechst's patent did not relate to the manufacture of Chlorpropamide at all! However, because of the legal complications, BCPW producedmuch less of the drug and was unable to

fulfil bulk orders.[66] There are several other cases of attempts by foreign drug companies to curb legitimate activities of Indian concerns.[67]

Apart from the instance of BCPW, the experience of wholly Indian owned drug companies like Alembic and Ranbaxy demonstrates that Indian concerns are capable of producing sophisticated synthetic drugs. According to the Ranbaxy Laboratories' 1979 annual report, Doxycycline, an important new antibiotic, was successfully manufactured on a pilot plant scale. Research to develop indigenous technology for the manufacture of 6-Amino-Penicillinic Acid, the starting drug intermediate for bulk Ampicillin Trihydrate, was also undertaken. Hence the argument that MNCs in the drug industry are indispensable because only they can provide sophisticated technology cannot be sustained.

Another indication of the actual quality of production technology employed and the R&D undertaken is provided by an analysis of the qualification and training of the high incom mployees (earning Rs. 36,000 and above per annum) in these companies. Such an analysis of seven leading foeign pharmaceutical concerns (Reckitt and Colman, Boots, Glaxo, Pfizer, Richardson, Hindustan, Sandoz and Bayer) reveals that out of a total of 1695 high income employees in 1978-79, 435 (25.7 per cent) were not even graduates. As many as 1300 (76.7 per cent) have graduate qualification or less. In Pfizer, in 1979-80, as many as 12 of their senior chemists and research officers wee only graduates in science.[68] This then is the real picture of the supposedly highly qualified personnel in foreign drug concerns. No wonder so little relevant R&D work is done!

The real nature of production in the pharmaceutical industry is extremely unclear. The majority of pharmaceutical concerns do not provide any information about product-wise production and capacities in their annual reports, though they are obliged to do so under the Companies Act. Infomation provided is under the vague general categories of "injectables", "liquids", "tablets", "capsules", "granules", "powders", "cream and ointments" and so on. Thus the government and its monitoring agencies have apparently no way of finding out the precise figures of specific drug produced and sold. In the

absence of reliable specific data, all sorts of claims relating to the high technology nature of production, the amounts of vital drugs produced and so on, can be made and entertained. In effect, the government's ignorance is te drug MNCs' bliss.

Despite the obvious limitations of such data, there is substantial evidence of production in excess of licensed capacity. The Minister of State for Petroleum, Chemicals and Fertilizers has himself presented data before the Rajya Sabha which clearly show large-scale unauthorized production.[69] The information cited by him moreover was provided by the foreign companies themselves. In view of the more or less consistent policy of the government in regularizing excess capacity, they believe they can afford to reveal these facts. Significantly, at least four foreign companies -- Cynamid, Sandoz, Ciba-Geigy and May and Baker -- have stated that the various registration certificates, approvals and permission letters issued by the government did not specify the authorized capacities for various products. Further, the government admitted in Parliament recently that Glaxo, Pfier and Smith, Kline and French were manufacturing about 30, 40 and four formulations respectively, under doubtful authorization.[70] This then is how the regulation of a vital "care" industry is distorted, because of the influence of MNCs on the government machinery and policy.

Effect on Balance of Payments

Apart from the distortions mentioned above, the operation of MNCs in the drug industry also have a deleterious effect on India's balance of payments (BOP).[71] Substantial royalty payments are made and various collaboration fees charged for the use of brand names and for every bit of technology transferred. As the profitability of foreign companies in this industry is high, the remittance on account of profits and dividends are correspondingly high and become a significant burden on BOP. These firms also tend to import their raw materials and even packing material from the parent company. Table III provides an illustrative account of the direct effect of the operations of four leading foreign companies on BOP, based on their own 1980 annual reports. All the four concerns -- Glaxo, Pfizer, Warner Hindustan and Sandoz -- expended more foreign exchange than they earned, resulting in a total outflow of Rs. 712.9 lakhs in 1979-80 alone. Subrahmaniam and

Pillai have demonstrated that operations of foreign companies are more import intensive than those of their Indian owned counterparts.[72] Therefore the operations of these firms, instead of promoting self-reliance, actually serve to increase India's dependence.

TABLE-III

Illustrative Account of Direct Balance of Payment Effect of Operation of Foreign Companies, 1979-80

(Rs lakhs)

Company	Total foreign exchange earned: exports (fob) & others	Total foreign exchange spent			Net foreign exchange earned
		Import of raw material (c.i.f)	Dividend remittances (net)	Others	
Glaxo	270.4	268.8	126.9	4.9	-130.2
Pfizer	41.1*	69.4	124.7		-153.0
Warner Hindustan	15.0	53.2	18.5	8.5	-65.2
Sandoz	186.0	504.0	18.0	28.5	-364.5
Total	512.5	895.4	288.1	41.9	-712.9

Source: Data provided in the companies' annual reports.

*Break-up of export figures shows that Pfizer's actual earning of foreign exchange is only Rs. 2.14 lakhs out of Rs. 41.1 lakhs, the rest comprising rupee earnings.

The claim that foreign capital supplements domestic savings through capital inflows is another myth perpetuated in official circles. An analysis of the capital structure of eight leading foreign drug concerns shows that the total actual inflow on account of equity was merely 13.51 per cent of present equity capital in contrast to 64.38 per cent equity held abroad (Appendix I). The rest of the share capital was raised through bonus shares or was subscribed by the public sector financial institutions, or by the Indian public. Moreover, a large part of this capital inflow was, in fact, an inflow in kind, not in cash. And, as is well known, MNCs tend to export obsolescent machinery to their affiliates at inflated prices. In the case of one company, Cynamid, the actual inflow, after accounting for the sale of shares by the parent company at a premium of Rs. 12 per Rs. 10 share, was negative.

With the advent of sovereign governments in the ex-colonial countries, the MNCs have perfected new techniques for maximizing the profits of the parent group, by evading regulatory mechanisms. One

major technique is transfer pricing. Since a large part of the imports and exports of the foreign drug companies is with their parent groups, there is every possibility of price manipulation through transfer pricing in these transactions. While the price of imports are inflated, those of exports are deflated. This is a common practice of the MNCs in the pharmaceutical industry, as Vaitsos and Sanjaya Lal have shown in the case of Columbio and Sri Lanka respectively.[73] In India, little work has been done to analyse the incidence of transfer pricing, which, because of its obviously clandestine nature, is difficult to detect. Some instnces, however, can be cited. Majumdar has cited the instance of Roche which introduced Librium in the Indian market at a price exceeding Rs. 5455 per kg., while a Delhi firm imported is at Rs. 312 per kg. Another foreign subsidiary charged Rs. 60,000 per kg for Dexamethasone which was later reduced to Rs. 15,000 at the intervention of the Controller of Imports.[74] On 15 April 1975 the government acknowledged in Parliament tht Hoechst, and Merck, Sharp and Dohme were importing Indemethacin, Prenylamine Lactate, Furesemide and so on from their parent companies at prices higher than those in the world market. Moreover, Merck, Sharp and Dohme refused to utilize the stocks of these basic drugs imported by the CPC.[75] Later, on 21 November 1978, the Minister of Petroleum, Chemicals and Fertilizers informed Parliament that consequent to the canalization of Gentamycin imports, the price of this bulk drug was brought down from a peak Rs. 45,000 per kg (cif) to approximately Rs. 1,000 per kg (cif). Similarly, the price of Doxycycline was brought down from about Rs. 3,000 per kg (cif) to Rs. 1500 per kg (cif).[76] The differences between the pre-canalization and post-canalization prices are obviously due to transfer price manipulations by foreign drug firms. Chandrasekhar and Purkayastha have attempted a highly tentative estimate of transfer pricing in the case of imports from their associates by 29 foreign companies in 1977. On the assumnption that the minimum price at which any one commodity was imported was equivalent to the actual minimum price prevailing in the international market, the authors have calculated that the outflow due to the inflation of the imports by these companies amounted on a minimal estimate to Rs. 456.06 lakhs out of their total import bill of Rs. 1899.27 lakhs in 1977.[77] This however is a phenomenon which the authors

themselves have admitted, needs to be examined further. Apart from imports, transfer pricing is resorted to in the case of exports. For instance, Nagesh Kumar has found that in an export oriented pharmaceutical concern with 49 per cent foreign equity, 70 to 80 per cent of the drugs produced was exported to the parent company at prices that were so low that the firm would have run into a loss but for the export subsidies provided by the government.[78] Sustained research would unearth many other cases of such manipulation by MNC affiliates.

As indicated earlier, the government has been slack in its regulation of foreign drug companies. Since it has not forced erring drug companies to provide detailed production data, its information on the drug industry, often provided tardily by foreign drug concerns, is incomplete and even misleading. On a number of occasions this has led the government to mislead Parliament. For example, in a reply to a question in the Lok Sabha on 18 August 1981, the Minister of State for Petroleum, Chemicals and Fertilizers had stated that the recent shortage in the Delhi market of PAS granules, manufactured by Pfizer, had been explained by the latter as being due to a closure and later a go-slow in their plant as a result of labour unrest, which had affected their production of the above formulation. But the Majumdar has revealed that the factory manager of the PAS section of the Pfizer plant had, through signed notification on 26 March 1981, closed down production in that section as "the sudden step increase in the price of MAP without a corresponding increase in the price of the finished product, it has become uneconomical to produce PAS".[79] More recently, the Minister for Petroleum, Chemicals and Fertilizers made a statement in the Rajya Sabha, on 23 November 1981, correcting his earlier replies given to supplementaries during the debate of 14 September 1981 relating to Betamethasone and Vitamin A imported by Glaxo. In his earlier reply he had stated that Glaxo had gone to court denying imports of Vitaman-A whereas the latter had actually challenged the price revision of Betamethasone and its derivatives.[80] Such examples can be multiplied. These should suffice to reveal the relative ignorance of the concerned ministry about the actual state of affairs in the drug industry.

Conclusions

We have highlighted only some of the inadequacies of the drug policy and the shortcomings of the regulatory system with regard to the drugs and pharmaceutical industry. In this sphere, as in others, operations of the MNCs have proved to be a bane and not a boon. Certainly, as we have shown above, they have not provided the foundation for the self-reliant development of the drug industry, and have, in fact, distorted production priorities. We have not dealt with the public sector, the Indian private sector, and the small-scale sector in this paper. These sectors, including the public sector itself, are, to some extent, also guilty of malpractices or distortions of production priorities.[81] Nonetheless the MNCs, as the Hathi Committee noted, present a different order of problems. Their activities are geared towards at least continuing, if not increasing, technological dependence, as well as continued reliance on imports of bulk drugs, resulting in a continued drain of foreign exchange through permitted and illegal channels (transfer pricing), apart from creating grave distortions in the nature of drug production. Today, even more so than in 1975 when the Hathi Committee report was published, there is no alterntive to the take-over of all the foreign drug companies (not just those identified as foreign under FERA), if the government it truly serious about the establishment of a self-reliant drug industry whose production conforms to the needs of the Indian people.

However, today such a commitment and policy are much more unlikely than in 1975. In particular, the conditions of IMF loan, especially the government's commitment to import liberalization, further incentives to private foreign capital and further dilution of controls on the entire private sector, would rule out such a possibility.[82] Whether these conditions were imposed by the IMF, or put forward by our "patriotic" government, purportedly in accordance with national policies and priorities, is immaterial. The fact of the matter remains that the earlier more or less liberal policies towards foreign capital have culminated in a virtual jettisoning of the policies of self-reliance.

APPENDIX-I

Relative Importance of Capital Inflow in Total Equity for Leading Foreign Companies (Rupees thousand)

Company	Total present equity capital	Equity held abroad	Total actual inflow of equity	Total outflow of equity (repatriation)	Net inflow	Net inflow as % of total equity	Net inflow as % of equity held by parent
Cynamid India (1979)	45,595	25,077 (55.0)	4,560	10,031	(-)5,471	--	--
Bayer (I) (1978)	81,100	41,362 (51.0)	19,315	--	19,315	23.82	46.70
Boots (1979)	22,642	12,000 (53.0)	2,999	--	2,799	13.25	25.00
Pfizer (1977)	1,00,458	75,600 (75.3)	20,000	--	20,000	19.91	26.46
Warner Hindustan (1980)	29,812	14,906 (50.0)	3,500	--	3,500	11.74	23.48
Richardson Hindustan (1978)	15,000	8,250 (55.0)	2,750	--	2,750	18.33	33.30
Nicholas Labs (1980)	14,636	6,600 (40.9)	100	--	100	0.68	1.50
Glaxo	1,44,000	1,08,000 (75.0)	18,000	--	18,000	12.50	16.67
	4,53,243	2,91,796 (64.38)	71,224	10.031	61,193	13.51	20.98

Source: Based on Corporate Information System (IIPA) Data.

Note: Figures within brackets indicate percentage.

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1. **Third Five Year Plan**, New Delhi, Planning Commission, Government of India, 1961, p. 24.

2. **Constituent Assembly Debates**, 6 April 1949.

3. See Industrial Policy Resolution, 1948. This analysis in based on Kamal Mitra Chenoy, "Industrial Policy and Big Business in India, 1947-1966", unpublished manuscript. See also Kamal Nayan Kabra, "The Concept of Self-Reliance in India's Plans and Policies", IIPA working paper, December 1980.

4. Chenoy, ibid; Michael Kidron, **Foreign Investments in India**, London, 1965, pp. 103-112.

5. Kabra, op cit.

6. See for empirical evidence K K Subramaniam, "Foreign Financial Collaborations in the Private Sector", in R K Hazari (ed), **Foreign Collaboration**, Bombay, University of Bomby, 1967.

7. H K Paranjape, "Industrial Growth with Justice -- India's Strategy", in Charan D Wadhwa, **Some Problems of India's Economic Policy**, Bombay, Tata McGrawhill, 1977, p. 338.

8. Ministry of Petroleum and Chemicals, **Report of the Committee on Drugs and Pharmaceuticals Industry** (popularly termed the Hathi Committee Report), Delhi, 1975, p. 87.

9. Ibid, p. 86.

10. Ibid, emphasis added.

11. Ibid, Chap. 5, Annexure II, pp. 110-120.

12. Ibid, p. 86.

13. Ibid.

14. Ibid, Chap 5, Annexure II, pp. 121-124.

15. Ibid, p. 90.

16. Ibid, p. 96.

17. Ibid, p. 97.

18. Ibid, p. 98. Emphasis added.

19. Zoya Hasan, "Problems of Nationalisation: Case of the Indian Drug Industry, 1974-75", **Indian Journal of Political Science**, June 1980, p. 237.

20. Ibid.

21. Ministry of Industrial Development, Internal Trade and Company Affairs, **Report of the Industrial Licensing Policy Inquiry Committee** (Main Report), Delhi, 1969, p 16. However, ILPIC assumed that "the (foreign) collaborating concern and other non-resident shareholders usually adopt a policy of non-interference in the internal management of the company" and therefore excluded these shareholdings also in their computation of effective equity" (ibid. p 15). This contention is, however, unustified as various studies have shown as we shall see.

22. Benjamin Cohen, **Multinationals and Asian Exports**, New Haven, 1975, p 9.

23. See for instance the statement by the Finance Minister, **Economic Times**, 2 August 1978.

24. For an illustrative list of capacity expansion, see Sudip Chaudhuri, 'FERA; Appearance and Reality", **Economic & Political Weekly**, 21 April 1979, P 739.

25. "Expansion through FERA", **Economic and Political Weekly**, 3 December 1977, p 1991.

26. From prospectuses of the respective companies available with the Corporate Information System (IIPA).

27. Hasan, op cit, p 254.

28. Hathi Committee Report, p 25.

29. J S Majumdar. "Instruments of Policy", paper read at the seminar on the Drug Industry and the Indian People, AIIMS, New Delhi, 7-8 November 1981, mimeo. (Henceforth the seminar will be referred to as Drugs Seminar).

30. Ibid.

31. Ibid.

32. Ibid.

33. Statement by the Minister of Petroleum and Chemicals in the Lok Sabha, 29 March 1978.

34. **Economic Times** (Bombay), 13 February 1981.

35. **Indian Express** (New Delhi), 18 October 1981. This would perhaps qualify as another "improvement" by the present government over the earlier Janata policies.

36. Sanjaya Lall, "International Pharmaceutical Industry with Special Reference to India", **Oxford Bulletin of Economics and Statistics**, August 1974, p 143.

37. H G Grabowski and J M Vernon, "Structural Effects of Regulation on Inovation in the Ethical Drug Industry", in R J Mason and P D qualls (ed), **Essays on Industrial Organization, Cambridge**, 1976, p 195.

38. For instance, Merck, Sharp and Dohme, and Organon and Syntex in corticosteriods; Glaxo and Beecham in penicillin; Squibb, Lederle and Pfizer in strepetomycin and tetracyclines; Ciba, and May and Baker in anti-infectives, and so on. See B V Ranga Rao, "Foreign Technology in Indian Pharmaceutical Industry", **International Seminar on Technology Transfer**, Vol I, C S I R, pp 10.21 - 10.22. See also Nagesh Kumar, "Evaluation of Direct Foreign Investment in India -- A Case Study of Drugs and Pharmaceutical Concerns", unpublished M Phil dissertation, Delhi School of Economics, June 1980, Chapter 3.

39. Lall, op cit, p 145.

40. **Transnational Corporations and Pharmaceutical Industry**, U N Centre on Transnational Corporations, New York, 1979, Table 4, p 110.

41. Lall, op cit, p 145.

42. Hathi Committee Report, p 87

43. Based on information given in **Who Owns Whom**, London, Dun and Bradstreet Ltd.

44. **U S Business Directory for India**, New Delhi, US Embassy in India, 1978, pp 8-9.

45. B V Ranga Rao, **Indian Drug Industry -- Its Status Perspective**, New Delhi, Centre for Studies in Science Policy, Jawaharlal Nehru University, 1975.

46. Sanjaya Lall, "Multinational Companies and Concentration: The Case of the Pharmaceutical Industry", **Social Scientist**, Vol 7, No 8/9, March-April 1979, p 16.

47. **Economic Times**, 27 August 1977 (Research Bureau study).

48. **Patriot**, 1 July 1981.

49. W V Rane and A R Patwardhan, "Priorities in Drug Manufacture", paper read at the Drugs Seminar, mimeo.

50. S Bhattacharya, "Drug Trials on the Indian People", paper read at Drugs Seminar, mimeo.

51. **Economic Times** (New Delhi), 6 November 1981.

52. **Patriot**, 30 November 1981.

53. Public Accounts Committee (Fifth Lok Sabha), **Foreign Participation or Collaboration in Research Projects in India**, 167th Report, Delhi, 1975, p 184.

54. Ibid, pp 184-190.

55. Goodman and Gilman (ed), **The Pharmacological Basis of Therapeutics**, 5th Edition, 1975, p 349. Quoted by A R Phadke, "Scientific Scrutiny of some Over-the-Counter Drugs", paper read at the Drugs Seminar, mimeo.

56. Phadke, ibid. Phadke gives several other examples including cough syrups, vitamin formulations and so on.

57. **Economic Times** (New Delhi), 22, 30 July 1981.

58. See N I Joseph, "Multinationals in the Indian Drug Industry", **Social Scientist**, Vol 7 No 8/9, March-April 1979, p 82.

59. Gouri Pada Datta, "Drugs, Drug Industries and Indian People", paper read at Drugs Seminar, mimeo.

60. **Economic Times** (New Delhi), 28 November 1981.

61. Daniel Creamer, **Overseas Research and Development by United States Multinationals**, 1966-1975, Conference Board, 1976, p 5.

62. The Sandoz Group's R and D figures are given in the 1980 annual report of Sandoz India Ltd which carefully avoids mentioning its own R and D figure. The latter was furnished by the Minister of Petroleum, Chemicals and Fertilizers in statement LT-1196/77.

63. Lobbies of drug MNCs like OPPI justify the centralization of R and D in the home country on the specious plea that "disease knows no national boundaries". Yet, some tropical diseases are unkown in the West, on which therefore little R and D is carried out. The availability of only one drug for treatment of leprosy and filaria from which millions suffer in India, is obviously an outcome of this tendency.

64. Sudip Chaudhuri, "The Role of the Foreign Controlled Firms vis-avis the Indigenous Firms in the Pharmaceutical Industry in India", paper read at the Drugs Seminar, mimeo.

65. Ibid.

66. Ibid.

67. Chaudhuri provides several other examples.

68. This is ased on an unpublished Corporate Studies Group study.

69. Reply by the Minister of State for Petroleum, Chemicals and Fertilizers to unstarred question no 1620, Rajya Sabha, 9 March 1981. S K Goyal, in a survey of excess capacity with the Indian corporate sector has found that "the largest number of cases, and particularly those having more than 25 per cent excess installed capacity, are of Multinational Corporations". See S K Goyal, "A Preliminary Survey of Excess Industrial Capacities with the Indian Corporate Sector," Corporate Studies Group, Reprint No 6, Indian Institute of Public Administration, July 1980.

70. Majumdar, "Instruments of Policy", op cit.

71. Goyal, "The Impact of Foreign Subsidiaries on India's Balance of Payments", study prepared for the Joint CTC-ESCAP Unit, Bangkok, 1975, mimeo.

72. K K Subramanian and P Mohanan Pillai, **Multrinationals and Indian Export**, New Delhi, 1979, Chap III.

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81. A sharp, and even somewhat biased, critique of the role of the public sector drug companies is given in Subrata Sinha, "Drug Prices and the Public Sector", paper read at the Drugs Seminar, mimeo.

82. The confidential IMF documents on India's loan were published in abridged form in N Ram's dispatches in the **Hindu**, 17-21 October 1981. See also the white paper published by the Government of West Bengal on the IMF loan.